ORGANISED BANKING

IN

THE DAYS OF JOHN COMPANY

(1800—1857)

With special reference to Early Banking in Bombay

Main Thesis approved for the degree of Doctor of Philosophy—Calcutta University

BY

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TO

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As a humble apology for grave misunderstanding.

CONTENTS

PART I.

PART II.

APPENDICES.

PREFACE.

The history of the Indian Banking institutions during the days of the John Company (1) is not carefully nor fairly well-written. The present work attempts to trace the history of some banks which are not even mentioned by the existing writers. In some cases, only mere names of some of these banks are recorded. I have written out their history with such degree of correctness, accurateness and completeness as the existing unpublished manuscript records of the Government of India at Calcutta and the Ancient Manuscript Records of the Bombay Provincial Government permit me to do. Most of these sources have never been drawn upon by the previous writers. I have tried to explore them for light upon this important subject. What little the existing writers say on the banking operations of this period is almost in the nature of a guess or partakes of the character of wild assertions. The reason for this is to be found in the absence of a Statistical Department publishing detailed facts on the work of these banks, the state of the money market, the conditions of foreign trade and the output and character of agricultural and industrial production of this time. Except a chronological account of the Banks from 1809 to 1863 the "very first book on Banking" written by C. N. Cooke gives but a very

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(1) "John Company" was the familiar term by which the English people meant the English East India Company. It was a popular corruption of the term "Johan Company" which the Dutch people spoke of. The Dutch gave out the story that the Company was really a "Great Prince" called "Jan or John" and his surname was—"Company." The Indian people referred to the Dutch, the French, the Portuguese and the English Companies as "Jan Company."

cursory survey of their operations during this period. J. B. Brunyate has supplemented it to a certain extent in his authoritative work entitled "An Account of the Presidency Banks." But his work deals only with the Presidency Banks and more space is allotted to the Presidency Banks' history from 1860 to 1899. Symes Scutt, the distinguished historian of the Bank of Bengal deals exclusively with the Bank of Bengal. There is a too ready acceptance of these previous writers' statements on the part of all the present-day writers on Banking.

It has been my aim to show that the present banking system of India is a very different thing from what it was during this period. It has been my object to show the forces at work in the past. I have come to realise how fascinating the nature of the work of the earlier Banks is and it is a pity that more useful material is not available on this subject. Mr. John Sullivan says, "from 1793 to 1829 no less than 21508 folio volumes of records were sent from India to England. There has been a vast increase in the number since that time." *See* "Remarks on the Affairs of India"—1852. It is apparent then that it is extremely difficult to write with some amount of confidence on Indian affairs during these years without access to them but I am obliged to the sources of information and the authors mentioned in the Bibliography.

It is indeed a pity that the early history of the banking transactions of the Bombay Presidency has escaped the observation of all research scholars and received singularly little attention from historians. A connected account of the early banking history of Bombay is presented for

the first time in this book. Though this subject is treated from the historical point of view, attention has always been drawn to the salient lessons that can be learnt out of a study of the Early Banks of Bombay.

The entire information on Early Banking in Bombay has been collected solely out of the Manuscript Records preserved by the Bombay Government. The authors of other books from whom I might have gathered few facts are also distinctly mentioned in the different foot-notes. I owe a deep debt of gratitude to Mr. G. F. Gennings, the Director of Public Information, Bombay, for affording me every facility to consult the records. My thanks are due to Mr. D'Souza, the Superintendent of the Records and his staff for placing volumes after volumes of the Manuscript Records at my disposal. I am extremely thankful to Nawabzada A. F. M. Abdul Ali and the staff of the Imperial Records Office, Calcutta, for their unfailing courtesy, tactful guidance and encouraging response to the numerous queries I have been forced to address them.

The collection of statistical material with reference to the earlier Banks and their operations has been no easy matter. A statistical department was opened only recently in 1840 or thereabouts in the Home Establishment by order of the Governor-General-in-Council and Government servants were requested to transmit accurate information and local details for tabulation on Land, Water, Lakes, Canals, Population, Wealth, and Commerce. One or two detailed headings under commerce with which we are concerned have reference to banking operations such as lending or borrowing and exchange. But the Statistical Abstract relating to British India

from 1840 to 1865 contains no particulars on banks and their operations, rates of exchange and bank-note circulation. Consequently it is with great difficulty that one can generalise on such imperfect details as are available. Hence I have accepted only such statements and figures as could be gathered from the Government Manuscript Records and I have indicated throughout the different pages of the book, the different sources from which they have been taken. There is no use of blaming the older writers for the lack of statistical material. Even the Report of the Mansfield Commission of 1867 says that "it has not succeeded in obtaining accurate reports regarding the amount of capital whether in shares or deposits now held by the several British Banking Companies which are doing business in the different Presidencies and many mofussil cities in India."

The indigenous banks and their banking system did exist during this period. Their keen sense of capital and credit was in no way tarnished. Without the aid of railways, an efficient postal service, or the telegraph and even a uniform national currency the indigenous bankers continued to remit or draw at sight on any important trading centre in this immense country.* Except a casual reference to their operations no detailed study of their methods and operations is needed to envisage the economic environment in which the European Organised Banks were conducting their banking business during this period.

* But they sometimes availed themselves of the Government Treasury and purchased drafts on the Government Treasury at Calcutta by paying money at the District Collectorates. (*See* the Financial General letter from the Court to Bengal No. 18 of 1851—14th May, 1851—Paras. 1 & 2.)

Again there are no philosophical treatises on banking theory written during this period. Until 1863 when C. N. Cooke published his " first treatise of banking " there was no philosophical consideration on banking. It is a wonder why even in the days of banking failures and monetary stringency, special attention was not drawn to the progress of banking knowledge. Though the private unchartered banks occasionally volunteered to solve the currency problem the prevailing conception of banking was never in favour of bank-note circulation. The furnishing of widely accepted credit of the banks for that of the less known customers was not understood by the people of this period. Even in the case of the Bank post Bills of the Presidency Banks there was not much demand for them. That Banks have naturally to play an important and significant part in the creation and circulation of convenient, elastic and inexpensive media of payment was never understood. They consented to use mint certificates, treasury notes, the gold ingots imported into the country by the banks, the Sub-Treasurer's deposit receipts, promissory notes of the Government and bank post bills as substitutes for metallic money. But the people of these days were believers of the hard money school. The Hon'ble the Court of Directors of the East India Company and the Government of India were also partly responsible for this preference of metallic money to well-secured paper. That private banks would introduce currency disorders if granted freedom in the matter of note-issue was the oft-repeated slogan. It is indeed a pity that so enlightened an observor as Henry St. George Tucker held this opinion. We find an echo of this self-same opinion in several of

those financial despatches of the Government of India to the Court of Directors.†

It is indeed a deplorable feature that unrestricted access to the records of the old Presidency Banks cannot be given to outsiders. Their multifarious activities and their place in the monetary system of the country cannot be correctly visualised in the absence of such access. It is these banks alone that present a story of continuous evolution and all their earlier rivals have been removed from the field altogether. But the most important of their dealings are reported in the Financial Despatches of the Government of India. The Public Department Records of the Government of India also contain valuable information on the Presidency Banks under the headings, "individuals and miscellaneous."

Banking in its modern connotation could not have been developed in those days of the nineteenth century when the economic structure of society was not closely integrated. Under the trade and industrial conditions existing at that time modern banking could hardly have existed. Banking business cannot but be related to the general economic development. From a description of the actual nature of the commercial business and industrial practice of those times it would be evident that there was not much need for developed banking or monetary technique. There was an absence of regular economic processes in which goods were to pass through

† *See* the Financial General lettler from the Court to G-G.-in Council, 2nd May, 1855—Para. 45. "The refusal of the Accountant Gene.al to issue Bank notes from the Government Treasury to Provincial Treasuries when required in payment of salaries to Government servants to enable them to make private remittances to different parts of the country was upheld by the G-G.-in-Council and ratified by the Court of Directors."

a series of stages. No regular banking was needed at all these stages. The handicraft system and production for the market existed and can be understood as typifying the industrial operations of the day. Trade was largely conducted with foreign countries. But the financial ramifications needed for it were not very large and it was with great difficulty that the existing banks could operate their business. The system of commercial payments except in cities was on a cash basis. There were two-fold difficulties which the banks of this period had to surmount, namely, distance and different currency units and systems. Hence money-changing flourished and also afforded the basis for developing the money, exchange and banking business.

Again, there was a remarkable lack of structural difference between capital supply and commerce. Just as the Agency Houses of the latter half of the 18th century combined both lines of business in their hands so also did the Italian and the Upper German merchants, the Goldsmith Bankers of London and the London Acceptance Houses. There was no clean-cut demarcation in the different avocations and lines of business of these pioneers of banking. Till the beginning of the nineteenth century there was no distinct and separate organisation for banking. It was the Agency Houses that initiated these distinct organisations administering the deposits paid in by mercantile houses, the shares of partners retained in the Agency Houses and deposits of the East India Company's officials. The Agency Houses obtained from the above sources their working capital required for their particular enterprises which covered not only trade but building, shipping and other industrial ventures. Loans or advances to the Government were also made in

the loan market whenever the Government (*i.e.*) the East India Company appeared as a borrower. A closer association or rapproachement of banking and public finance was being realised.

Some of the new facts that I have been able to discover are the following: (1) the name of the director who was responsible for introducing the restrictive phrase in the matter of the foreign exchange business of the Presidency Bank in the matter of the 1836 Charter of Incorporation. (The Bank of Bengal.) (2) most of the Government as well as the mercantile directors of the Presidency Banks worked without taking any remuneration in the beginning and gradually the European element was introduced to cope with the increasing business conducted in the English language, (3) the specimens of the notes of the Bank of Bengal and reasons for changes in the notes and post-bills of the Bank of Bengal and the mint certificates of the Calcutta Mint, (4) the list of holidays in the case of the Presidency Bank of Bengal, (5) the making of Saturday a half-holiday, (6) the more forward nature of the Union Bank of Calcutta and the steps taken by its rival the Presidency Bank of Bengal to withstand its effective competition, (7) the early and futile attempts made by the Court of Directors to introduce Banking Legislation immediately after the passing of the English Bank Charter Act of 1844, (8) the difficulties of the Bank of Bombay in the monetary crisis of 1845, and the part played by the General Treasury before the starting of the Bank of Bombay, (9) the nature and character of securities on which loans were made at that time, (10) the early attempts made by the Banks of Bengal and Bombay to open branches, (11) the nature of the investments of the external capitalists of that time, (12) the

history of the "ant currency" which the indigenous bankers of Ahmedabad invented and the other specific services of the indigenous bankers of Bombay which have not been enumerated by other writers, (13) the correcting of certain of the mistakes of the earlier writers who have covered the same ground in the study of banking or currency. Lastly, I have written out the history of some banks like the Earliest Bank of Bombay, the Bengal and Bombay Military Savings Banks, the details of the Government Bank of Madras, the early history of the Bank of Bombay, the Government Savings Bank and the Carnatic Bank of Madras. I have attempted to fill up the lacuna and the omissions which the previous writers have made while chronicling the banking history of this period. Even the futile attempts made by the people of Bombay to start banks are carefully recorded by me. These would help us to know the nature of the banking institutions and ideals which the people of that time entertained.

Though the book has been entitled "Organised Banking" it is apparent that there was no systematic organisation and no Central Bank of Issue existed. Even in the contemporary foreign banking systems such conscious organisation of the credit system with the Central Bank of Issue as the guide, friend and philosopher hardly existed. Till Walter Bagehot taught the Old Lady of the Threadneedle Street her duties to the general public of the country there was but a dim perception of the duties, responsibilities and power that a Central Bank could wield in the banking system of the country. It is indeed true that during the years 1821 to 1844 the policy of contracting credit and regulating it was fully practised by the Bank of England which bought and sold

consols and other securities in the market. But this by itself was insufficient to control credit. Until the legal limitation on the rate of interest was removed and the bank rate was freely used to control credit the money market was never effectively controlled by the purchase and sale of securities alone.

To-day, India stands on the crossways-halting half-way between the past and the future. An inquiry is being held to enable India to take the road that leads her on to the goal of prosperous nations with ever-growing prosperity. If the anaemic financial body of the nation is to be resurrected into healthy activity by the infusing of credit—the life-blood into agriculture and industries the banking machinery has to be completely overhauled. This little book will be of great use in instructing the readers of the difficulties which the earlier banks suffered from. Particular attention has been drawn to the lessons that these dead or defunct (bankers) eloquently teach us. The most important contribution, however, lies in the increase of our knowledge of the banking institutions whose history no other writer has been able to unearth so far. As a research worker I have pieced together fragments of facts and statements into an organic whole so that the subtle bond running through this half-a-century can be perceived. Inferences and lessons have been derived in each and every chapter as a result of scientific and methodical inquiry and the collective experience is stated in the final chapter. Being an accurate picture of the early banking conditions in Bombay it would decidedly help the modern Indian Joint Stock banks to mould their future. It is for the existing banks to understand the lessons that I

have indicated and prevent history from repeating itself.

It is indeed true that every chapter in Part One of this book can be made the basis of a separate monograph but the object of the thesis is to study intelligently the development of banking from its simplest beginnings. Room cannot, therefore, be found for stating further details concerning the currency, exchange and industrial conditions of the time and carrying them to the end of our enquiry. These are referred to as banking conditions of the time can be made intelligible only by understanding their drift. As the different foot-notes indicate I have relied mainly on authoritative sources. Part Two is entirely based on Government Manuscript Records of the Bombay Government.

Acknowledgments are due for the helpful material provided by Dr. Pramathanath Banerjee. My special gratitude is due to him for revising the manuscript and making valuable suggestions.

SENATE HOUSE,
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8th April, 1930.

B. RAMACHANDRA RAU.

POSTSCRIPT.

This volume makes no attempt to deal with present-day banking problems regarding which information must be sought in the companion volume of mine entitled "Present-Day Banking in India". The object is to give the reader some idea of the early conditions in which the early Joint-Stock Banks of this country chiefly worked and of the part they played in the economic life of the country in the days of John Company. As no treatise on banking can be complete without some discussion of the matter of nationalisation of banking a reference has been made to this topic. Part II was the main thesis and Part I was the supplementary thesis submitted to the Degree of Doctor of Philosophy. My thanks are due to Mr. Lal Chand for befriending me in the days of adversity and financing this publication.

B. RAMACHANDRA RAU.

20th October, 1931.

ERRATA.

Page	*Line*	*For*	*Read*
Dedication	2	Sir Sarvapalli	Sir Sarvepalli.
IX	3	treatise *of* banking	treatise *on* banking
,,	4	consideration *on* banking	consideration *of* banking
1	17	Bengal Bank	Bengal *Military* Bank
72	15	1838	1848
132	17	metallic currency amounted	metallic currency *which* amounted
242	26	other that	other *so* that
300	8	Silver owing	Silver *still* owing
313	25	needed *to* "to	needed *is* "to
543	17	Government of India stock	Government of India *three and half per cent. stock*
543	18	of the sale of three and half per cent. Government securities	of the sale of treasury bills
582	27	disorder and currency chaos	currency disorder and chaos
588	6	reasoning with	reasoning *exist* with

CHAPTER I.

A RUNNING SURVEY OF THE ORGANISED BANKING INSTITUTIONS IN THE DAYS OF JOHN COMPANY.[1]

The object of studying the history of the European Banks of this period.—The existing knowledge according to the different lists.—The Parliamentary Paper of 1860.—Macgregor's List.—Martin's List.—C. N. Cooke's List.—A brief history of the Banks not mentioned by the previous writers.—The first Bank of Madras.—The Earliest Bank of Bombay.—The Carnatic Bank of Madras.—The History of the Carnatic Bank.—Permanent director.—Attempt to solve the currency problem.—The British Bank.—The Asiatic Bank.—The Government Bank of Madras.—Some details of its organisation.—The Capital of the Bank.—The Business of the Bank.—An estimate of its net results.—Hours of business.—Details of its transactions.—The Government Savings Bank of Calcutta.—The names of the members of the Committee.—The Bengal Bank.—The work of the Bengal Military Bank.—Management of the Funds.—The Officers of the Bank.—Regula-

(1) A part of this chapter was first entitled "Organised Banking in the Days of John Company and published as the leading article in the Indian Journal of Economics—Part I.—Vol. X, July, 1929, pp. 1—50. It was also published in "Bengal, Past and Present"—The Journal of the Calcutta Historical Society, Vol.—XXXVII, pp.145—167 and Vol.—XXXVIII, pp. 60—80,

tions for office business.—Rules for Depositors.—Actual operations.—Reasons for failure.—The nature of the Military Banks.—The improved final list of banks.—The Agency Houses.—Their number.—The immediate cause of their failure.—The magnitude of the catastrophe.

THE OBJECT OF OUR STUDY.

There is no more obscure subject in Indian Economic history than the growth and operations of the European Joint-stock Banks and the indigenous banking houses which conducted their business in India during the days of John Company. It has remained and is bound to remain for a long time an unwritten chapter in the history of Indian Banking as these banks did not publish valuable statistics and other data stating precisely their assets and liabilities which would be of service in any scientific account of them. A few published papers of great importance which have not been used so far by the writers on Banking really throw valuable light on the development and the state of exchange and monetary conditions of the time. By a patient examination of the Manuscript Records of the Government and a mass of other materials I have been able to unearth the history of a few banks. I have deduced important conclusions from a careful study of the working of the banks of this period which would be of great importance to the present-day banks.

EXISTING KNOWLEDGE.

There are four publications which attempt to throw light on the banking institutions working during this period. Macgregor writing in 1848 enumerates the banks of this period in his Oriental Commerce, part XXIII which forms a part of his wider work "Commercial Tariffs." The next writer R. M. Martin furnishes us a list of banks in existence in India during the years 1803-1854.(2) There is a Parliamentary Paper(3) which gives us the list of banks conducting business in India at that time. Lastly, Mr. C. N. Cooke's "Rise, Progress and present conditions of Banking in India" which was published in 1863 deals with the history of the organised banks of this period.

THE PARLIAMENTARY PAPER OF 1860.

Taking the most important source the Parliamentary Paper of 1860 into consideration it is indeed a pity why the compiler has been a little careless in the recording of information.

BENGAL.	MADRAS.	BOMBAY.	COUNTRY BANKS.
The Bank of Bengal.	The Bank of Madras.	The Bank of Bombay.	The Dacca Bank.
The Agra and United Service Bank.	Branch of the Agra Bank.	Branch of the Agra Bank.	The Delhi Bank.
The Government Savings Bank.	The Government Savings Bank.	The Government Savings Bank.	The Simla Bank.

(2) *See* R. M. Martin's—Indian Empire Vol. I—p. 565.

(3) *See* the Collection of the Parliamentary Papers—1840—1870—in the Library of the University of Calcutta.

BENGAL.	MADRAS.	BOMBAY.	COUNTRY BANKS.
Branch of the Chartered Bank of India, Australia, and China.	The Government Savings Bank.	Branch of the Chartered Bank of India, Australia, and China.	The Simla Bank.
The Commercial Bank of India.	,,	Branch of the Commercial Bank of India.	,,
The North-Western Bank.	,,	,,	,,
The Oriental Banking Corporation.	Branch of the Oriental Banking Corporation.	Branch of the Oriental Banking Corporation.	The Agra Savings Bank.
The Chartered Mercantile Bank of London, India and China.	Branch of the Chartered Mercantile Bank of London, India and China.	Branch of the Chartered Mercantile Bank of India, London and China.	The Uncovenanted Service Bank of Agra.

The two main points of discrepancy are the following. It is recorded in the Parliamentary List that the Commercial Bank of India's Head Office was in Calcutta. But it was started in Bombay in 1845 and the Calcutta Office was its branch.(4) Secondly, it is not recorded that the Oriental Banking Corporation's office at Calcutta was a branch of the Bank which had its Head Office in London.(5) R. M. Martin, however, gives accurate information as regards the Banks of this period. The Parliamentary List does not also make it clear that the original Head Office of the Chartered Mercantile Bank of India, London and China was at Bombay. It was started as the Mercantile Bank of India, London and China and by virtue of its amalgamation with the Chartered Bank of Asia it became the Chartered Mercantile Bank of India, London and China.

(4) *See* the chapter on the Private Banks of Bombay—i   his Monograph.
(5) *Ibid.*

MACGREGOR'S LIST.

To have an idea of banks conducting business in the earlier years reference must be made to Macgregor. His publication already referred to enumerates the banks doing business in Calcutta, Bombay, Madras and Ceylon. It was natural on his part to make no reference to the country banks which undoubtedly existed at that time as his work was solely concerned with commerce at the chief port centres. Coming to his list we find the following banks mentioned by him.

CALCUTTA.	BOMBAY.	MADRAS.	CEYLON.
The Bank of Bengal. The Union Bank. The Agra Bank. The Bank of Western India (Calcutta Branch).	Besides the banks of the town there are branches or agencies of other banks. He does not however specify the names of the banking institutions.	The Bank of Madras. The Branches of other banks are not mentioned by him.	The Bank of Ceylon. The Oriental Bank.

Of the two banks in Ceylon, the Bank of Ceylon and the Oriental Bank Macgregor gives interesting details, which are not furnished either by Cooke or any other recent writer, as regards their capital, nature of business and note-issue. The Bank of Ceylon was a bank of issue incorporated by Royal Charter in 1840 and confined its business solely to the Island of Ceylon. But to facilitate its exchange business it had agencies in the Presidency

towns of India. Its circulation of notes amounted in 1840 to £127,487 according to Macgregor. The Oriental Bank had its Head Office in London and also a Board of directors in Bombay. It had considerable operations in Calcutta, Madras, Canton, Hongkong and Singapore. Its note-issue in 1846 was about £15,000. The total capital of both the banks as applied to Ceylon was very limited being about £100,000 to £125,000. In addition to exchange business, *i.e.*, the sale of bills on England and the Presidency towns of India, they received deposits and discounted local bills for merchants and traders. He says that "the latter mainly comprise purchases made by the Chetties from importers, chiefly of British produce and the acceptances of the Moormen retailers whose paper is for smaller amounts proportionate to their minor transactions." Speaking of the gradual growth of their banking business he says that "the transactions of 1846 rose roughly to two millions while in 1845 they amounted to only one and half millions." Macgregor testifies to the absence of speculation on the part of the merchants of Ceylon.(6)

Martin's List.

R. M. Martin who seems to be a more careful writer than Macgregor gives us the following table which shows at a glance the work of the banks of this period (1803 to 1854). As certain errors have

(6) *See Oriental Commerce*—pp. 710—712.

to be corrected the full list has necessarily to be quoted.

	Col. I. Name of the Bank.	Col. II. Year of Establishment.	Col. III. Head Office.	Col. IV. Branches and Agencies.
(1)	The Bank of Bengal ..	1809 ..	Calcutta ..	......
(2)	The Bank of Madras ..	1843 ..	Madras ..	......
(3)	The Bank of Bombay ..	1840 ..	Bombay ..	......
(4)	The Oriental Bank ..	1851 ..	London ..	......
(5)	The Agra and United Service Bank.	1833 ..	Calcutta ..	Agra, Madras, Lahore, Canton, and London.
(6)	The North West Bank	1844 ..	..	Bombay, Simla, Mussuri, Agra, Delhi, and Cawnpore.
(7)	The London and Eastern Bank.	1854 ..	..	......
(8)	The Commercial Bank	1854 ..	Bombay ..	Agents in London, Calcutta, Canton and Shanghai.
(9)	The Delhi Bank ..	1844 ..	Delhi ..	Agents in London, Calcutta, Bombay, and Madras.
(10)	The Simla Bank ..	1844 ..	..	......
(11)	The Dacca Bank ..	1846 ..	Dacca ..	......
(12)	The Mercantile Bank	..	Bombay ..	London, Calcutta, Colombo, Kandy, Canton, and Shanghai.
(13)	India, China and Australia Bank.	did not commence business as yet.		

	Col. V. Capital Subscribed.	Col. VI. Paid-up Capital.	Col. VII. Notes in Circulation.	Col. VIII. Specie in coffers.	Col. IX. Bills under discount.
	£	£	£	£	£
(1)	1,070,000	1,070,000	1,714,711	851,964	125,251
(2)	300,000	300,000	123,719	139,960	59,871
(3)	522,000	522,000	571,089	240,073	195,836
(4)	1,215,000	1,215,000	129,279	1,146,529	2,918,399
(5)	700,000	700,000	..	74,362	..
(6)	220,560	220,000	..	..	..
(7)	250,000	..	325,000	..	..
(8)	1,000,000	456,000	..	..	..
(9)	..	180,000	..	..	..
(10)	..	63,850	..	..	..
(11)	30,000	..	..	..	..
(12)	500,000	328,826	777,156	77,239	109,547
(13)	did not commence business as yet.				

A comparison of this list with the Parliamentary one and the final list prepared by the author would reveal certain discrepancies. Firstly, the Head Office of the Commercial Bank is stated to be located at Bombay in Martin's list. The Parliamentary list, which would generally be considered as an authoritative one, locates it at Calcutta. But it is peculiar why there should be such an oversight in this authoritative report. The Commercial Bank of India was started in Bombay in 1845. The date quoted in Martin's list is inaccurate. Similarly the Oriental Bank is stated to have been started in 1854. But it was first started in 1842 and it became the Oriental Banking Corporation in 1851 by virtue of its amalgamation with the Bank of Ceylon. This was done mainly in order to annex the note-issue privilege of the Bank of Ceylon. This mistake in the matter of dates is not due to R. M. Martin but Dr. B. R. Ambedkar who quotes the above list which contains however no dates fills in the dates column and the discrepancy in dates must, of course, be attributed to him.[7]

C. N. COOKE'S LIST.

Cooke records the work of thirty-nine European Banks which have been started in India or London during this period mainly with the view of conducting banking business in India. But even this list is not an exhaustive one for he omits the names of some of the earlier European Banks of the eighteenth

(7) *See* B. R. Ambedkar.—The Problem of the Rupee—foot-note of p. 37.

century. It is evident that his information of the earlier European Banks is very scrappy and is chiefly confined to few details of these operations as could be gleaned from the early records of the Bank of Bengal. It is evident that he has not consulted any of the contemporaneous periodicals and newspapers or else he would not have omitted the work of the three Military Banks of Calcutta, Bombay and Madras.

A recent writer who comments in an interesting manner on the methods of the Early European Banks in Calcutta bases his information on the Selections of the Calcutta Gazette and by a reference to the Government records of that time in the Imperial Government Record Office and the Secretariat Office of the Government of Bengal he has succeeded in pointing out the qualitative aspect of the work of the Early European Banks in Calcutta, *viz.*, the Bengal Bank, the Hindustan Bank, the General Bank of India and the General Bank of Warren Hastings and the Bank of Calcutta which became rechristened as the Bank of Bengal as soon as it received its charter in 1809. His treatment of the banks of this period is confined solely to the banks of the City of Calcutta and he makes no reference either to the earlier European banks which did business before the starting of the Bank of Hindustan or the contemporary Madras Bank. He does not mention the name of the Carnatic Bank.[8]

(8) *See* H. Sinha—Early European Banks—Part I.

Dr. P. Banerjee in his valuable lectures on the state of the Finances of the East India Company has given the public a glimpse into the nature of the work of these banks during these years 1770 to 1857. He succeeds in throwing more light on the General Bank of Warren Hastings which should not, however, be mistaken for the General Bank of India started in 1785. The attempt of Warren Hastings to organise the Bank and thus perfect the means of easy and safe remittance from the mofussil into the metropolitan city and the nature of the work of this short-lived institution are outlined clearly for the first time by Dr. Banerjee.(9)

Before the work of these banks, which have not been mentioned by the previous writers including Cooke and Brunyate can be taken up in detail a reference to Cooke's list should be made.

Name of the Bank.	Year of its starting.
The Bank of Calcutta	1806
Chartered as the Bank of Bengal	1809
The Bank of Western India	1842
The Oriental Bank	1846
The Oriental Banking Corporation	1851
The Bank of Madras	1843
The Government Bank of Madras	1805
The Bank of Bombay	1840
The Union Bank	1829
The Bank of Hindostan	1770
The Commercial Bank	1819
The Calcutta Bank	1824
The Bank of Mirzapore	1835

(9) *See* the Calcutta Review—Nov. 1927—pp. 133-141.

Name of the Bank.	Year of it, starting
The Agra and United Service Bank, Ltd.	1833
The North-West Bank of India	1840
The Delhi Banking Corporation	1844
The Dacca Bank	1846
The Benares Bank	1844
The Simla Bank, Ltd.	1844
The London and Eastern Banking Corporation ..	1854
The Cawnpore Bank	1845
The Uncovenanted Service Bank, Ltd.	1846
The Agra Savings Fund	1842
The Commercial Bank of India	1845
The Government Savings Bank	1833
The Chartered Bank of Asia	1852
The Mercantile Bank of India, London and China ..	1853
The Chartered Mercantile Bank of India, London and China	1853
The Punjab Bank, Ltd.	1860
The Sindh, Punjab and Delhi Banking Corporation, Ltd. ..	1860
The Central Bank of Western India	1860
The Bank of Hindostan, China and Japan, Ltd.	1862
The Bank of Rohilkand	1862
The People's Bank of India, Ltd.	1860
The Comptoir D'Escompte of Paris	1860
The Bengal Bank	1790
The Bank of India	1828
The Carnatic Bank	?

Besides the above-mentioned banks which conducted business for some time, C. N. Cooke also mentions the unsuccessful attempts that were made during this period to start banks in London with the sole purpose of conducting banking business in India. He casually mentions the attempts of the London merchants to found the "East India Bank" in 1836. R. M. Martin strove his level best to secure a charter for his projected Bank of Asia in 1840.(10)

(10) *See* the Parliamentary Paper entitled Correspondence relating to the Projected Bank of Asia—Document C of the Parliamentary papers—1840 to 1870.

Similarly in 1852 the London Bank of Australia and India was projected but owing to the opposition of the Colonial Office in London it failed to secure a charter.

A Brief History of the forgotten Banks.

Since Cooke wrote the memorable lines that "probably the first banking institution in India on European lines" was the Bank of Hindustan. started in 1770, it has become an accepted article of faith among writers of Indian Economic history. This statement has to be accepted with much qualification. It must be understood that banks must have operated in India with either good or bad fortune even before that date. It is usual to consider the Government Bank of Lord William Bentinck as the only Government Bank conducted by the Government of Madras. As a matter of fact there were two such organised Banks conducted by the Company's Council at Madras. No mention has been made by any other writer of the attempts made in Bombay to conduct banking business by the Bank started by the Company's Council at Bombay. Even as regards some of the Banks started in Bengal, Cooke throws little light on their operations. For instance the General Bank of Warren Hastings is not mentioned by him. His description of the work of the Government Savings Bank of Calcutta is not fairly lucid. No detailed information can be obtained from Cooke's Book as regards the first Bank of the Council of Madras and the Early European

Banks of Madras. He does not even mention the details of the operations of the joint-stock banks of the North-West Provinces.[11] Only very little light is thrown on the operations of these banks. Although he has given very interesting information about the Savings Banks of the N. W. Provinces yet it is inexplicable why the three Military Banks did not attract his notice.

The First Bank of Madras.

Most probably the credit of starting the first European managed banking institution belongs to the "benighted province" of Madras. It was, however, a Government institution managed by its officers belonging to the Council. It must have been started in 1683 as the following notification appearing in the Fort St. George Gazette clearly proves this fact.

"By the Hon. East India Company's order we, the Agent and Council of the Fort St. George, do hereby publicly declare unto all parties whatsoever that we will at any time take up and receive what sums of money so ever should be brought to us at six per cent. per annum. Interest for six or twelve months' time or any longer term of years but no less than six months nor to exceed the time we shall agree for and we shall for the better security

(11) Compare and contrast the treatment of Cooke as well as Allen with reference to the history of these Banks—*See* Allens' Memorandum included in Thomson's Despatches—Vol. II.

of such persons that shall so let out their money give our receipt for the same under the Honourable Company's seal."

A close scrutiny of the prior records of the Company discloses the information that it was in 1682 that the Hon'ble the East India Company recommended the Council of the Fort Saint George to obtain a loan by constituting itself a bank for the receipt of fixed deposits. Hence Governor Gyfford promptly resolved to raise a bank of money to the value of one hundred thousand pounds at six per cent. rate of interest.[12] Thus it becomes apparent that in order to augment the territorial revenues of Madras, the plan of starting the Company's Bank on the model of the London Goldsmith's banks was mooted by the Hon'ble the East India Company. It is not clear whether it issued any notes but there is no doubt that it acted as a bank of discount.[13]

The Earliest Bank of Bombay.

Chronologically viewed the next attempt at founding an organised bank was made in Bombay. This time again it was the Company that pioneered the way.[14]

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(12) *See* P. C. Vol. II, 21st June, 1683.

(13) *See* Mrs. Penny's History of the Fort St. George—Prof. Dodwell holds a contrary view and does not consider it as a bank, but only thinks that the word bank was used in the literal dictionary sense of the term and that its banking operations cannot be traced in full, see His Report on the Records of the Madras Government —p. 85.

(14) *See* the first chapter of Part two of this monograph.

Passing on to the territory of Madras we notice that Lord Macartaney also strove to raise a bank of money meaning thereby a " public treasure " in connection with the settlement of the Carnatic Nawab's and the Tanjore debts. His plan was that the Bank should keep one-third of its funds in specie and lend two-thirds on good bills or valuable pledges at six per cent. He opined, however, that this would convert Madras into a " shop of pitiful usury instead of a city of honourable commerce."[15]

THE CARNATIC BANK OF MADRAS.

The present knowledge of the writers on the Carnatic Bank—a banking institution of this period—is confined only to the single paragraph written by C. N. Cooke. He refers to the Caranatic Bank in the following language. " This is the name of a Bank which was in existence at the Madras Presidency in 1791. At present we are without knowledge of the proprietary body and other particulars."[16]

Recent writers including Symes Scutt repeat the self-same information and have nothing to add.[17] Even in the Book on the Early European Banks in India no mention is made of the Carnatic Bank which undoubtedly must be considered as one of the earliest of the European Banks conducting

(15) *See* the Military consultations—17th April, 1782, p. 1064.—quoted by H. Dodwell in the " Records of Madras. "

(16) *See* C. N. Cooke, " Banking in India. "

(17) Symes Scutt—" History of the Bank of Bengal, "

business in this country. It is indeed curious why these writers did not refer to any published records on the Madras Presidency dealing with the history of the province in the last years of the *Eighteenth Century.*

The History of The Carnatic Bank.

A scrutiny of the State Records of 1788 has enabled the industrious writer Mr. H. D. Love to point out that this was the first joint-stock Bank in Madras founded under the title of the Carnatic Bank during Sir Archibald Campbell's Governorship.(18) The founders of the Carnatic Bank were Josias Du Pre Porcher of Fort St. George and Thomas Redhead of Calcutta, John Balfour, John Chamier, Edward Raphael, Thomas Cockburn, Benjamin Torn and N. E. Kendersley who was a member of the Board of Trade also. The object was to receive money, issue bills and notes and discount bills and notes and other securities "after the manner of the most respectable bank in London." Its capital was 120,000 pagodas divided into eight shares held by the above-mentioned founders. Power was taken to appoint a cashier, clerks and servants and to issue notes to the value of three times the capital and the bank began issuing its notes in 1788.(19)

On 22nd December; 1790 we find the Carnatic Bank issuing a notice in the Fort St. George Gazette

(18) *See* P. Mis, Vol. II—11th August, 1788 for greater details.

(19) *See* P. C. Vol.—CL.—11th August, 1788, for greater details which are not, however, of material importance.

that no business will be transacted at the Bank either on X'mas or New Year's Day. Mr. John Hunter who subsequently became the Director of the British Bank, was the then cashier who signed the above notification. Evidently in the absence *of a Negotiable Instruments Act fixing the* number of *holidays the banks had to issue* general notifications indicating the bank holidays. *A similar list* of bank holidays at the Bank of Bengal was published by the latter institution in 1837. This list was the same as that allowed by the mofussil Courts of the East India Company in the Province of Bengal or the Treasury and the Sudder Dewany Adawlät.[20]

PERMANENT DIRECTOR.

Messrs. Porcher and Redhead were the original formulators of the scheme and were also the chief directors of the Bank of Hindostan [21] conducting banking business at Calcutta. They not only

(20) *See* the List of Holidays—(original spelling is given although incorrect) Christian:—New Year's Day—Good Friday—Christmas—Sundays—Hindoo Holidays:—Mucker Sankranti—Sree Punchamy—Seeboo Ratree—Dole Jatra—Saronee—Sree Ram Navami—Charuk Poojah—Dhuserah—Sreenain Jatra—Ruth Jatrah—Ooltah Ruth Jatrah—Ratee Poornemah—Junmo Ostamee—Ononto Brotoo—Mahalaya—Durga Pujah—Kalee Pujah—Bharata Jotna—Ross Jatrah, Kartic Pujah, Juggadhatri Pujah—Deotan.

Mahomedan:—Shubrath—Eeed—Buckreed—Muhuram—Akhree Churusunk—Bawray Buffay.

The Government Savings Bank at Bombay was closed on Saturdays at half past one o'clock P. M. since 1858 and the closing of the Presidency Banks on Saturdays was also adopted. The closing of the Bank of Bengal at two P. M. on Saturdays commenced from 1863—*See* Symes Scutt History of the Bank of Bengal —p. 67.

(21) In 1791 Balfour and Raphael sold their shares to John D'Fries Junior and Porcher and Redhead respectively.

gradually secured the shares which the other chief proprietors disposed of [22] but Porcher was appointed *a permanent director* and two other directors were chosen to help him. Thus he can be considered as the *First managing director* of an Indian Bank. This system still persists in this country in spite of its apparent defects.

Attempt to solve the Currency Problem.

It was at the suggestion of Mr. Porcher that the Carnatic Bank approached the Madras Government with the request to support it in its endeavour to give the rupee a more easy and extensive currency at the established rate of exchange. Its letter says that "hitherto we have been able to receive that coin at the Bank but if the Government will be pleased to authorise the receipt of our notes at the Treasury to any limited extent they think proper we will make arrangements for the receipt of rupees and issue notes accordingly. There cannot be any risk out of this step, *i.e.*, granting this indulgence to say, one lakh fifty thousand pagodas and the great object of fixing the currency of the rupee will be considerably forwarded by it and a great convenience would naturally result both to the Government and individuals who find it difficult to receive or pay away a larger sum than one lakh of rupees in course of the morning and the shroffing of which

(22) Such a feature exists in the case of the modern People's Bank of Northern India. It cannot be considered as a "new fangled idea" as the Editor of Indian Finance says. *See* Banking Enquiry Number, 18th Jan. 1930. Page 108.

the expense is considerable will be saved to individuals."[23]

But the Madras Government refused to grant any concessions and this must have been the result of the Hon'ble the Court of Director's order of 10th January, 1787, enjoining on the local authorities in India not to have any dealings with the private banks nor encourage them in any way.[24] The Court of Directors also held the opinion that the Agency Houses and the indigenous bankers were better fitted to meet the banking needs of the community than the European Banks. In the then circumstances of the Indian society the utility of banking institutions was considered doubtful. Hence it forbade any connection whatsoever with the private

(23) The letter to the Government from which the above extract is taken was signed by the following directors of the Bank—Jos Du Pre Porcher, Thomas Cockburn, John D'Fries Junior, Jos Du Pre Porcher for J. Chamier and Thomas Redhead Esq., and Porcher Redhead and Co. for Messrs. Torn and Kindersley. For a copy of the original letter *see* P. C. Vol. CIXX—8th July, 1791.

(24) This order was not carried out by the Bengal Government which actually decided to loan five lakhs of Sicca Rupees to the Bengal Bank and one and half lakhs of Sicca Rupees to the Hindostan Bank in 1791 on the deposit of Company's paper to the amount required (25 per cent. in addition thereto in the case of the Bengal Bank was also insisted upon). The Bengal Bank could not take advantage of this liberal offer. The Hindostan Bank paid off the loan within the stipulated period of two months and soon regained its position in the money market. References to this bank can be met with in 1799 as well as 1807. The Bank of Hindostan acted as the Agent of the Calcutta Exchange Lottery and sold its tickets in 1799. *See* Symes Scutt's History of the Bank of Bengal. Again in 1807 we find the Government of Bengal making use of this bank for inviting tenders for constructing a mausoleum over the grave of Lord Cornwallis at Ghazipore. The Bengal Government easily justified its help on the ground that if the banks were to fail the value of Government paper would be adversely affected, that Government contractors would fail, that the faith of the holders of the Government securities would be easily shaken and that undesirable consequences might result out of this step.

banks. As a result of such explicit instructions the Madras Government refused to employ the agency of the private bank in money negotiations and encourage it in its attempts to extend the popularity of the rupee though reciprocal convenience could have resulted out of this step.

The Carnatic Bank, however, continued its business and in 1798 it was appointed along with the British Bank to receive the deposit of lottery money. It is difficult to ascertain when it ceased to exist for the chroniclers of this period have failed to provide us with any authentic record. Evidently it might have failed immediately after 1808 when Lord William Bentinck's Government Bank started its business in right earnest. The actual rivalry of the three Banks—the Carnatic Bank, the British Bank and the Asiatic Bank led to the necessity of creating a trustworthy bank.

The British Bank.

The British Bank mentioned in the above para was a contemporary institution conducting business in Madras at about this time. No writer on Banking has even mentioned the name of this bank. The directors of the British Bank were George Westcott, Thomas Lorimer, Robert Woolf, Francis Lantone and John Hunter. The last named individual acted as the cashier of the Carnatic Bank and we find it in existence by 1795. It was known as the British Bank as the directors were all British subjects. In

1798 it was appointed along with the Carnatic Bank to receive the deposit of lottery money. Another mention of the British Bank can be traced in the Government Records when the value of its building was estimated at about 7,500 star pagodas.

THE ASIATIC BANK.

There was also in existence by this time another Bank known as the Asiatic Bank. This was recently started in 1800 and we find it approaching the Madras Government with the request that its notes might be received as cash at all the Treasuries as it was the case with that of the notes of the two older Banks, *viz.*, the Carnatic and the British Banks. The keen rivalry which existed among the three banks made the general public dissatisfied with their business and Lord William Bentinck organised his plan to create the needed banking machinery. The Asiatic Bank's request was not granted by the Court of Directors and the letter written in reply is carefully preserved in the Bombay Government Records Office. The copy of this letter was forwarded by the Madras Government to enable the Bombay Government to understand the Hon'ble the Court's opinion with reference to private banks and their note-issues. Paras. 205 to 233 of the General Public Letter of the Court of Directors to the Madras Government, dated 23rd October, 1805, refer to the state of Banking in Madras prior to 1805 and the reasons for refusing to comply with the above request of the Asiatic Bank are mentioned therein.

THE GOVERNMENT BANK OF MADRAS.

Even of the work of the Second Government Bank at Madras started by Lord William Bentinck in 1805 very little is known. Cooke says that it conducted business on a very small scale and had a note circulation of a very limited amount. Brunyate considers "it more a treasury than a Bank."[25] Not one of the recent writers has given us more information than these two authors.

The origin of the Government Bank was due to the recommendations of the Second Finance Committee[26] appointed to consider the state of finances of the Presidency of Madras. The first Finance Committee was appointed in 1798 and sat till 1800. Different subjects like the management of the Lottery fund and the establishment of the Government Bank to help the conditions of the junior members of the Company and the reorganisation of the Post Offices were some of its recommendations. The Bank of issue could not be started

(25) *See* J. B. Brunyate.—An Account of the Presidency Banks, p. 29.

(26) The Second Finance Committee sat till 1808. It was of opinion that though Gold pagodas were in circulation silver was the only suitable currency: and as there were numerous coins with fluctuating values which only tended to increase the shroff's profit in converting them into change it was proposed to adopt the Bengal Rupee as the single standard of value. Up till 1815 this diversity of coin existed and an examination of the Government Treasuries revealed that there were roughly 72 varieties of gold coin, 60 varieties of silver and 25 varieties of copper. These were gradually called in. Single and double pagodas were issued together with rupees, half-rupees, quarter-rupees and two-anna pieces. In 1818 it was decided to replace the star pagoda by the silver rupee as the coin of account. *See* Public Consultations.—27th July, 1815—p. 1999 and also 7th Jeny. 1818—No. 17.

for nothing definite as regards Government control was stated therein. There was no improvement in the state of finances[27] and a Second Committee had to be appointed.

One of the recommendations of the Second Finance Committee which submitted an *ad interim* report in November, 1805 was to start a Bank of Issue on lines similar to those recommended by Henry St. George Tucker in his famous letter to Lord Wellesley written in 1801. The only difference was that the Government should not subscribe any share capital nor were there to be any Government directors. This plan was hit upon as there was no individual private capital to have recourse to and no individuals like shareholders interested in maintaining its credit would, therefore, be forthcoming.[28]

The part played by Lord William Bentinck in the founding of this Bank is not mentioned by any other writer and is worth recording, as it shows the foresight of that distinguished nobleman who later on won laurels for his improvements in the Civil administration of the Company's territory. He was a staunch believer in the superiority of Government credit to private credit and he thought that in order to have extended paper currency the best means would be to start a Government

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(27) *See* Lord William Bentinck's letter dated 15th Jany, 1804 to the Hon'ble Governor Duncan Esq.—*See* Letter Book—Miscellaneous (Financial Department) XXIII and XXIV.

(28) *See* Biographical Notes on prominent bankers or legislators responsible for banking development in this period.

Bank which would always have the accommodation of the Public Treasury.[29] As he could not secure support for his scheme in the Council the bank was started in the second week of December 1805[30] without even consulting the Supreme Government. He acted as the sole director of the Bank and its notes were received at all the public treasuries in lieu of cash.

This plan of the Madras Bank was forwarded to Henry St. George Tucker[31] for favour of his esteemed opinion and from his trenchant criticism the following points of the Bank administration as designed by Lord William Bentinck can be grasped. He rightly says "that it is deficient in two of the most essential requisites of a Bank. It is neither calculated to obtain the confidence of the public nor does it provide the means of aiding the operations of commerce. The Madras Bank will not in my opinion be distinguished from the public treasury. It will be involved in all the money transactions of the Government. It will participate in its difficulties and its credit will be least when it has most occasion for credit in times of public distress. Lord William Bentinck contemplates this and makes provision for suspending cash payment as done in England during 1797 and after." The original plan of the Bank

(29) *See* Public Consultations—29th Nov.—1805, p. 5709.

(30) *See* Public Consultations—6th December, 1805, p. 5796.

(31) *See* Tucker's letter to Thomas Brown—the Acting Chief Secretary to the Madras Government—dated 18th March, 1806.

was to issue notes only and the idea of acting as a bank of deposit and discount at the same time did not enter into the mind of the founder. Mr. Tucker was shrewd enough to recognise the limited utility of a Bank of Issue and criticised this above conception on the following ground that "if the amount of specie which it was to keep in reserve was as much as the actual amount of notes in circulation there would be no augmentation of the circulating medium." A minor point of criticism was "that it was not so framed as to secure the greatest economy in its management. As the Governor chose to be the sole director his other duties would be so exacting that there would be very little time to pay adequate attention to supervise the duties of the Bank and the real affairs would after all be managed by subordinate officers having no direct responsibility."

This lucid criticism must have produced some salutary effect and brought about improvements in the Government Bank of Madras. It soon undertook deposit and discount business. Its notes were received in the public treasury but they had scarcely any circulation in the province of Madras itself.

Some Details of its Organisation.

Occasional references to its officers can be traced in the Government records of the time. One Richard Yieldham, a free merchant who settled in Madras acted as the Treasurer of the Government Bank. The Government Bank was located under

the Exchange in 1807. Important changes took place in the affairs of this Bank during the years 1807 to 1809 and it is a pity that these have not been chronicled by any other writer.

The Government Bank had to be reorganised for Mr. Petrie, who had to act as the Governor in place of Lord William Bentinck, who was recalled as a result of the Sepoy Mutiny at Madras, refused to act as Director of the Bank and appointed four ex-officio Directors—the Chief Secretary, the Mint Master, the Accountant General and the Sub-Treasurer. The Court of Directors condemned the starting of this Bank without their advice or consent being taken and directions were issued to follow the proposed regulations of the Bank of Calcutta. The Accountant-General had to undertake this task of reorganisation and all the notes issued hitherto were recalled by a proclamation dated 29th November, 1808. For a period of two years an attempt was made to reconstruct the Bank allowing the Government to subscribe one-fifth of the total five lakhs of pagodas of capital. The Bank was to be placed on a limited liability basis. The notes were to be current only in the Madras Presidency. The Government was to nominate five out of nine Directors. The Bank was to discount bills and the maximum rate of discount was fixed at twelve per cent.(32)

(32) See Public Consultations—1809—7th Nov., p. 6726 ; 23rd Nov., p. 6727

This well-directed scheme of reorganisation fell through and the Bank was started as a Government Bank pure and simple to be managed in all its aspects by the servants of the Government. The management rested in the hands of the ex-officio financial officers of the Government. As these details are not furnished by any writer on banking some of the most important of them are referred to.

The Capital of the Bank.

"The capital of the Bank shall be at present fixed at 8 lakhs of pagodas and it shall be augmented at such future period and to such an extent as the Directors with the permission and approbation of the Governor-in-Council may deem eligible." Thus the capital of the Bank in 1814, in which year this report has been drawn up, was roughly 8 lakhs of pagodas.

The Business of the Bank.

The credit of the Bank shall be employed in a manner which shall appear to the Directors most conducive to the interests of the institution. The Bank was empowered to receive articles for safe custody. It was to act as a bank of deposit, discount and issue. Its loaning, note-issuing and discounting operations were all subject to definite regulations mentioned in the Report itself.[33] It was also to purchase bullion on behalf of the mint.

(33) *See* paragraphs—9, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 to 51—and 55 to 59 for understanding its business in the matter of buying bullion.

Note-issue—

The bank issued notes in the following sums.

Pagodas	Two	or rupees	Seven.
,,	Five	,, ,,	Seventeen half.
,,	Ten	,, ,,	Thirty-five.
,,	Twenty		Seventy.
,,	Fifty		One Hundred seventy-five.
,,	One Hundred		Three Hundred fifty.
,,	Five Hundred		One Thousand seven hundred fifty.
,,	One Thousand		Three Thousand five hundred.
,,	Five Thousand		Seventeen Thousand five hundred.

The notes were to be issued to three times the amount of specie kept by the Bank. To quote the exact words of the Report "One Lakh of star pagodas in specie shall never represent more than three lakhs of these pagodas in bank-notes."

The General Superintendence and control was vested solely in the hands of the Governor who was the constitutional head of the Government Bank. An increase of establishment or an extension of capital or any other important aspect of business was to be decided by him.

In all its transactions with the Treasury it was to be considered as a distinct entity but the members of the Council were given the power to call for any information from the Directors in matters that may concern the interests of the Government.

Management of Business.

The Governor was to appoint five Directors for conducting the details of the Bank's business and frame bye-laws and regulations for the internal management of the Bank. " The Five Directors

were to be the Chief Secretary to the Government, the Accountant General, the Sub-Treasurer, the Mint Master and the Civil Auditor."

These were to be helped by an establishment consisting of European as well as Native officers. The actual staff in 1814 was as follows.—

EUROPEAN OFFICERS.—

Treasurer and Secretary.
Cashier and Accountant.
Cashier and Broker.
One Book-Keeper.
Two Writers in the Secretary's Office.
Two Writers in the Cashier's Office.
One Writer to keep the Lottery Accounts.

NATIVE OFFICERS.—

One Head Cash-Keeper.
One Deputy Cash-Keeper.
One Head Shroff.
Five Shroffs.
Two Bill Collectors.
Two Mootchies.
One Head Golah.
Six Golahs.
One Head Peon.
Four Peons.
Two Watermen.
One Sweeper.

The chief officers were obliged to take the oath and securities had to be found by them for the proper discharge of their duty and these officers were also prohibited from undertaking any other business.

The Hours of Business.

The hours of business of the Bank shall be from 11 o'clock to 2 o'clock for receipts and

payments of money but the officers had to attend till the day's business was actually closed.

The books of the bank were to be balanced every month and quarterly accounts of the transactions were usually submitted to the Governor.

THE DETAILS OF ITS TRANSACTIONS.

While deposits were attracted from individual merchants no overdrawing was permitted and the Cashier was held definitely responsible for such overpayments upon any individual account in the Bank.

The Bank undertook to discount private bills bearing two responsible names and the discounting of single name bills was left to the discretion of the Directors. All bills not honoured with payment on proper date including the three days of grace were sent to the Company's solicitor for protest. The discount on the bills as well as interest on loans were collected in advance.

Loans were made on the deposit of Company's paper as security or on such other security as was approved by the Directors of the Bank. Loans were generally made for a period of three months and in no instance were they to exceed twelve months. The minimum amount of the loan was fixed at 1000 pagodas.

The Government Bank also extended banking accommodation in the form of cash accounts to merchants and Agency Houses on the deposit of the

Company's paper or such other good security as the Directors approved for a period of three months or for a longer period if the Directors considered it wise to make such a long term loan. The security for the credit was to be deposited in the hands of the Bank and the interest collected on behalf of the borrower was to be credited to the account of the borrower. The credit was also issued in one or several advances as required by the borrower. But in no case was the credit to exceed the value of the deposited security."[34] No individual advance or repayment was to be for an amount less than 100 pagodas. The Bank also reserved to itself the right to call back the credit at any time whether the balance against the borrower be a part or the whole of the credit. Every such account was to be balanced once in every three months.

Brunyate, who gives more information of this Bank than any other writer says that "it was managed unsuccessfully by the Government officers during the early days of its career."[35] Even the Presidency Bank of Madras started in 1843 had to suffer on account of incompetent management during the first two years of its existence. "Improper advances to speculative persons formed the chief mistake."

(34) This shows that clean loans were not recommended and that no clean loans were in vogue in Madras and this must be one of the reasons why the money market was not benefited to any great extent.

(35) Brunyate must have been referring to Maitland's mismanagement of the Madras Government Bank in 1829 as a result of which strict regulations were passed in the matter of making loans. See Secret Consultations—5th October, 1830—Nos. 1 to 30—Quoted by Dodwell in his Records of the Madras Government.

Another industrious writer Mr. Crawford says "We have never seen stated in any public document the amount of the capital of the Bank and its profits instead of being carried half-yearly or yearly to account are permitted to accumulate for a series of years and thus carried to public credit."[36] During 1826-1827 the estimated profit was £620,226 but the real profit was £516,855 if the pagoda was to be valued at its real rate of *6s. 8d.* If the rate of profit be 10 per cent. then the capital must be roughly one-fourth million sterling. Having no surplus revenue the Government of Madras must have secured the capital on the payment of five per cent. on deposits; in which case the real profits of the Government Banking is only five per cent. This "dabbling in deposits and discounts for five per cent. profit on the part of the Government" was adversely censured by Mr. Crawford who considered it "least praiseworthy on the part of the Government to waste precious time in attending to the concerns of a small money-shop."

Whatever amount of truth there might be in the ingenious calculations of Mr. Crawford we possess another reliable and authoritative estimate of the profits of the Government Bank. This was stated by the Accountant-General in a public document. It is a mistake to suppose, as Crawford has done, that no public document describing its

(36) *See* Mr. Crawford's Evidence before the Select Committee of the House of Commons, 1830.

operations exists. We have already quoted the most important features of its constitution from a report of the Madras Government forwarded to the Bombay Government in 1814 with reference to its Government Bank. This report was forwarded on 6th September, 1814, by Mr. G. Strachey, the then Chief Secretary to the Madras Government. There are altogether 121 paras. in this report describing in detail the main features of its constitution.

In 1819 a report was published with reference to the Bank's past and present business. This report states that the Bank was founded when there was great distress arising out of scarcity of specie, a failure of mercantile credit and considerable public and private distress. As a French invasion was feared the Bank permitted an accumulation of specie in the Treasury for military purposes and the withdrawal from circulation of a large quantity of paper-money bearing interest. It proposed to be quite independent of the Government but the scheme of reorganisation fell through. Its business for the Government consisted in purchasing bullion for the Mint. It also managed the remittance business to Bengal. Though originally started as a Bank without any capital, yet during the course of reorganisation it accumulated capital and by 1814 this capital was roughly 8 lakhs of pagodas. It helped the Government to secure revenue and the deficits were converted into surplus as a result of the allocation of

bank profits to the Government of Madras. (37) While the modern monetary reformers quote the example of the Australian Commonwealth Bank alone as a Bank started without any capital of its own, this example of a Government Bank without any capital of its own in the initial stages is not taken into account. In the very first year of its operations its note-circulation amounted to eight and half lakhs of pagodas. Thirty-three lakhs worth of paper-money bearing interest at eight per cent. was withdrawn. Latterly the Bank had little connection with the Government save for little or small withdrawals of specie from the Treasury.

But this Bank soon became unsuited to the wants of a rising city and Mr. Ochterlony outlined the scheme for improving the Bank and making it an institution modelled on the Bank of Bengal and the Bank of Bombay. The Madras Chamber of Commerce also took a prominent part in the agitation for the starting of a better-equipped bank. The

(37) *See* the Territorial Finance Department, Vol. V.—Abstract of letter from the Court to Bengal—(1785—1838). The formation of the Bank was in 1805 with a nominal capital of 8 lakhs of pagodas which was not paid-up. The profits of the Bank on 31st Jan., 1827, were Rs. 5,926,981 and as we do not consider it useful to allow profits to accumulate; order 5 lakhs of Rs. to be retained from net profits as a separate deposit as means for covering losses without applying to Government. After deducting that sum there will remain Rs. 5,426,981 applicable to the discharge of Madras debt. We direct the Madras Government to credit annually Bank profits always reserving the sum of rupees 5 lakhs. That was how the Madras Government deficit was made into a surplus of Rs. 3,052,027.

The annual profits after 1830 reached the limit of Rupees 86000—The annual charges of its management amounted to Rupees 2,66,000—Para. 151—Financial General Letter from the Court to Bengal—Territorial Dept. No. 5 of 1830.

capital of the new Bank was to be thirty lakhs of rupees of which three lakhs were to be offered to the Government.[38] On 4th July, 1840 the capital was fully subscribed and a memorial was sent to the Court of Directors for a Charter of Incorporation. The Bank was actually started in 1843 and the considerable delay in the matter of incorporation was due to the request made by the public to reduce the [39] capital to twenty lakhs. The Court of Directors refused to consider this suggestion and considered it dangerous to grant the wide privileges of note-issue to an inadequately capitalised Bank.

Though the Government Bank failed to organise mercantile and private credit on suitable lines it did good service in those days when private banks did not exist to fill the void created by the failure of the Earlier European Banks, *viz.*, the Carnatic Bank, the British Bank and the Asiatic Bank. For obtaining a candid estimation of the services of the Government Bank the following quotation from the Madras Gazette would be of great use. " In its days, it had been a great accommodation to the public, a safe depository for unemployed balances and

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(38) *See* the Financial Consultations—16th June—Nos. 9 to 11—(Fort William) 12th May, 1830.

(39) *See* the Financial Consultations—29th Nov.—1842—No. 17—and 9th May, 1843, No. 4 and 5. The Presidency Bank of Madras was started on lines similar to that of the Bank of Bengal. Act IX of 1843 gave the Charter of Incorporation and the new bank began its operations in 1843. Mr. S. D. Birch was the first Civilian Secretary. Later on he became connected with the Bank of Bombay which failed in 1866 crisis. *See* Financial Consultations—23rd May, 1843 Nos. 17 to 19. Also 27th June, 1843—Nos. 28 to 30.

a source from which the man of principle and integrity has been relieved in a moment of necessity and upon which he has relied with confidence, but like many other good things it has suffered from abuse of a system of dealing and procuring accommodation, the most injurious to the man of straightforward dealing and conscientious punctuality."(40)

THE GOVERNMENT SAVINGS BANK OF CALCUTTA.

No other writer has evidently contradicted the description of Cooke as regards the working of the Government Savings Bank of Calcutta. The credit of starting the G.S. Bank in the Presidency towns is usually attributed to Lord William Bentinck but what really was done by him was only to extend the Government Savings Agency of 1810 which was being managed by the Accountant-General and the Sub-Treasurer. Savings Banks were not unknown by this time. One such institution conducted its operations successfully in Serampore.(41) The failure of the Agency Houses of Calcutta created a void in the money market and there were many people who suffered acutely by their failure.(42) The Government Savings Agency working since 1810 was empowered to extend its activities. By 1855 the Government Savings Agency was carrying

(40) Quoted by the Asiatic Journal—from the Ft. St. George Gazette—Sep. 29, 1830.

(41) *See* the Asiatic Annual Register—1824—July 8th, p. 192.

(42) *See* the Asiatic Journal—March, 1839—p. 198.

on its transactions with all parts of the country by means of the District Treasuries under the supervision of the Collectors and the Divisional Paymasters. By the Act of XXVI of 1855 the Secretary to the Government Savings Bank was empowered with judicial powers. The Government Savings Bank was nominally under the supervision of the Accountant-General to the Government of India but it was a separate establishment under an actuary who had to give both the bond of indemnity and security for the correct discharge of his duties. The usual practice was to credit deposits and debit withdrawals made at the District Collectorates and Paymaster's Treasuries on monthly returns forwarded by their officers. Re-payments were made by the Savings Bank Secretary by orders on Collectors and Paymasters. It is recorded that the business of the Savings Bank was transferred to the Bank of Bengal [43] in 1856. Separate District Savings Banks were not created till 1870.

Since Cooke wrote his description of the Government Savings Banks it is commonly supposed that in 1856 the Bank of Bengal displaced the separate agency under Government orders published in the Calcutta Gazette of 27th January, 1855. It

(43) *See* C. N. Cooke—Banking in India, p. 341—The letter of the Financial Secretary to the Government of India dated 18th Jany., 1856 gives the correct information but the separate agency was not abolished in 1856. Till 1863 the separate management existed and from Sep. 1863 the Bank of Bengal was paid monthly compensation of 750 rs. for managing this business. *See* Symes Scutt—History of the Bank of Bengal, p. 67.

was not the management that was actually transferred. A reference to the proceedings of the Government of India in the Financial Department dated 22nd August, 1861 would, however, make it clear that the expediency of transferring the management of the Savings Bank to the Bank of Bengal and the proposed branch banks was considered in 1861. Though this proposal was agreed to by the Secretary of the Bank of Bengal, the Civil Paymasters of Fort William and the Accountant-General the Governor-General decided that the Bank of Bengal was to be utilised merely as the banker to the Government Savings Bank and the management was, however, allowed to continue as before under the Accountant-General and the Actuary. The Bank of Bengal continued as the custodian of the funds of the Government Savings Bank in Calcutta till September, 1863, when the management also was handed over to the Bank of Bengal. Formal notice was served in 1886 on the Bank of Bengal that Savings business might be withdrawn at any time on nine months' notice being served on it. Actual notice to that effect was served on the Bank of Bengal in 1895 and Symes Scutt records that it was actually transferred in October, 1896.

The Government Savings Bank in Calcutta became popular from the very early years of its start and this was undoubtedly due to the great preparations and propaganda work done before its actual inception. A special committee consisting

of the following gentlemen was appointed to organise a plan for the Government Savings Bank.[44]

NAMES OF THE MEMBERS OF THE COMMITTEE.

P. M. Wynch, Esq.—*President.*
J. A. Dorin, Esq.
C. E. Trevelyan, Esq.
Lieut-Col Kennedy, Esq.,
Capt. H. B. Henderson, Esq.,
Theodore Dickens, Esq.,
Babu Ramkamal Sen.

This Committee can be considered as the first Banking Committee appointed in this country and the starting of the Savings Bank was recommended by it. Due to the persuasion of the Indian member of the Committee—Babu Ramkamal Sen, the Khazanghee of the Bank of Bengal, even the clerks of the Bank, Government public officers and the Pilot Service began to deposit their savings. On the very first opening day there were nearly 62 deposits ranging from Re 1 to Rs. 400. The total deposits amounted to about Rs. 3,828. The honour of being the first depositor fell to the happy lot of Baboo Dwarknath Tagore and his son was the second depositor, each depositing about four hundred rupees mainly to set an example to the rest of the members of the Hindu community. During the first five years, *viz.*, from November, 1833 to November,

(44) *See* the Calcutta Courier, May 8th, 1833.

1838 there were 3899 depositors with roughly about twenty-eight and one-fourth lakhs of rupees as deposits. By 1840 its gross operations amounted to 40 lakhs of rupees and about[45] 18 lakhs of rupees were invested through its medium in public funds. The number of depositors exceeded 4,500 in number. The depositors' list included all classes of people. In 1842 the Government undertook the wise step of paying the full month's interest on deposits made within the first four working days of the month. In 1854 there was the first reduction of the rate of interest payable on the deposits of the civil classes from 4 to 3 per cent. per annum. The limit of all deposits for all classes was raised from Rs. 500 to 1,500 and the rate of interest for the deposits of the soldiery was reduced from four to three and three-fourths per cent.

It speaks volumes in favour of the first Committee of Management which regulated the business and modified the original rules in the light of actual experience gained during the course of the bank's management in the first few years. As a repetition of the

(45) *See* the Pamphlet—Remarks on the Savings Bank which was published in 1840 or thereabouts. The anonymous writer of this pamphlet remarks that numerous branch banks of this parent institution be started at such places as Benares, Dacca, Allahabad, Cawnpore, Mirzapore, Saugor, Jubblepore, Agra, Delhi, Bareilly, Furruckabad, Meerut, Ludhiana, Kurnaul, Saharanpore, Almorah and Simla and other big towns. They would be secure places of deposit, afford inducement to industry, act as accumulators of capital, tend towards increased productiveness of labour and give increased facility for providing for physical wants to the depositors. A copy of this pamphlet exists in the Imperial Library and from internal evidence it can be gathered that Hon'ble F. Shore, the writer of the two volumes entitled "Notes on India" might have been the author of this pamphlet also.

rules guiding the business of the Bank would occupy too much space only a brief mention of the salutary measures leading to its actual success would be made. The Bank was placed under Government responsibility[46] and it was open to all classes of people without any distinction. The Government reserved the power to raise or lower the rate of interest after six months' notice in the Calcutta Gazette. When the deposits of a depositor were to amount to Rupees Five Hundred they were to be transferred to four per cent. Government Loan on behalf of the depositor. Thus the habit of investment in Government securities was also to be taught to these small savers. Again, the enforcement of such sound regulations which exist even to the modern day in one modified form or other must be held responsible for the success of the Government Savings Bank. It was the laxity of management and not the absence of such rigid rules that was chiefly responsible for the failure of the Bengal Military Bank, which was a Savings Bank mainly intended for the military classes. This leads us on to the subject of the Bengal Military Bank whose general plan of work is outlined in the Selections of the Calcutta Gazette. But no other writer on Indian Banking has referred to its work and the reasons for its failure. It is for the first time that these details of its operations are collected from the contemporary newspapers and magazines.

(46) *See* the Calcutta Gazette—Oct. 12—1833.

The Bengal Military Bank.

The plan of the Bengal Military Bank was first devised by the Commander-in-Chief and after securing the approval of the Governor-General-in-Council the Bengal Military Bank was started mainly for the purpose of enabling the military officers to remit their monthly savings and to assist the Regimental Savings Banks which were in existence in Bengal by that time and to help the formation of several more regimental savings banks by affording them proper means of investing their funds with security.

The Work of the Bank.

The Bengal Military Bank was authorised to receive deposits from 1st January, 1821, from all military officers Commissioned or non-Commissioned or Warrant Officers or any other officers attached to the Military Service of the East India Company. The deposits (not less than ten Sicca Rupees),[47] could be made out of their pay or monthly allowances by sending an application to the Paymaster authorising him to deduct the stated sum from their pay. The form of application was as follows :—

(47) The Sicca Rupees became the standard money in Bengal by that time. It must be remembered that there were other denominations of rupees current in Bengal and Lord Cornwallis made a great effort to standardise the 19th Sun Sicca Rupee as the unit of account in Bengal. By 1795 it was established as the standard money of Bengal. *See* the Selections of the Calcutta Gazette which reproduces the Government Notification on this subject—Fort William-Public Dept. Oct.—24th—1792. The intrinsic value of the different species of Rupees current in Bengal, Bihar and Orissa compared with the Sicca Rupee from assays made in Bengal is quoted in a tabular form in this Notification.

Deduct from this pay-bill and remit to the Military Bank as follows:—

For Captain	One Hundred Sicca Rupees	100	0	0
For Lieutenant	Fifty ,, ,,	50	0	0
For Serjeant	Ten ,, ,,	10	0	0
	Total Sicca Rupees	150	0	0

Signature of the Captain.

The Paymaster had to remit this sum to the Secretary of the Bengal Military Bank stationed in Calcutta by a bill of exchange on the Accountant-General drawn in favour of the Bank. A detailed statement was also to be sent to the Accountant-General and the Memorandum was to state in full the details, *viz.*, amount of deduction from the pay —Battalion, Regiment for the month of year to be remitted to the Bengal Military Bank. In addition to this deduction from pay individual depositors could remit savings directly to the Secretary of the Bauk.

Management of the Funds.

The General Military Bank in Calcutta was to lend these funds to the best advantage on the pledge of deposit of Government paper, public bank shares and other good securities so as to realise the highest rate of interest consistent with perfect safety.

Officers of the Bank.

Twelve directors were to be in charge of its operations. The Government had the right to

nominate three out of twelve and the remaining were to be elected by the constituents of the Bank at the annual meeting to be held in the month of January. The ex-officio Government Directors were (*a*) the Adjutant-General of the Army, (*b*) the Military Auditor-General and (*c*) The Accountant, Military Department. The first batch of Directors for the year 1821 was nominated by the Government. The first Directors were the following:—

(1) Col. J. Nicholls, C. B., Quatermaster-General, His Majesty's Forces.

(2) Lieut-Col. J. Paton, Quartermaster-General of the Army.

(3) Major L. Wiggins, Assistant Military Auditor-General.

(4) Major C. H. Campbell, Deputy Secretary to the Government, Military Dept.

(5) Captain R. H. Sneyd, 1st Regiment of Cavalry.

(6) Captain W.S. Beatson, Assistant Adjutant-General of the Army. Besides these military officers an expert banker-merchant and a partner of an Agency House and a Civilian Officer were recommended to the Board of Directors.

(7) John Palmer, Esq.

(8) George Cruttenden, Esq.

(9) James Young, Esq.

Mr. Ballard of the firm of Messrs. Alexander & Co. was appointed as the Hony. Secretary and

was authorised to appoint House Treasurers to the Bank.

Regulations for Office Business.

The following were some of the most important regulations or bye-laws of its business :—

(1) The treasurers have to keep the bank accounts in a separate set of books which would have to be produced at the time of meetings of the Directors or at any time.

(2) By the 5th of every month the Secretary has to furnish the receipts and disbursements and suggest the best methods for investing the floating balances.

(3) All bonds, deeds, mortgages, or other papers and documents having reference to pecuniary transactions and being bank stock or securities are to be made out in the name of the Directors but mere receipts may be signed by the Secretary for the Treasurers.

(4) There shall be quarterly meetings of the Directors for inspecting the accounts and such other business as may be brought before them. Special meetings when required for urgent business may be summoned by the President or any other Directors.

(5) The Signature of three Directors was considered adequate to sanction any measure and to authenticate any account.

(6) The office of the President was to be annual and three Directors had to go out annually by

rotation. The directors were to select the President and the three seats to be vacated annually were to be filled up by the votes of depositors.[48]

The most important thing to be noticed is the fact that the bye-laws do not give any loop-hole to the officers to mismanage the funds. They were also framed with the view of expediting business on sound lines and the permission for the depositors to elect three directors annually was evidently in the interests of securing the continuity of policy so eminently desirable in the case of all Savings Banks.

RULES FOR DEPOSITORS.

The following were some of the salutary provisions with reference to the depositor's business :—

(1) " Remittance must be made in Sicca Rupee. Each remittance must be for a minimum figure of ten Sicca Rupees and should not contain any fraction of a rupee.

(2) "Bills drawn by depositors not in excess of actual deposit will be honoured at any time. But to facilitate business bills will be payable only at two fixed periods, *viz.*, 15th January and 15th July. Officers going on leave will be allowed to draw any portion of their deposits by bills at ten days' sight.

(3) "The aggregate deposits are to be treated as joint-stock and vested in Government Securities. Profits arising out of this will be divided among

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(48) See the Selections from the Calcutta Gazette—Vol. V, pp. 61 to 66.

shareholders according to their respective proportion and carried to the credit of their accounts.

(4) "Half-yearly drafts of the shareholders below 1,000 Sicca Rs. will be paid in cash ; if greater than that it is left to the option of the Directors to pay it by transferring a portion of the stock at the rate at which it was purchased or at the rate of the day or at par as may appear most equitable."

A perusal of the above rules will make it clear that they were well-conceived and it is inexplicable why this bank failed in spite of such wise bye-laws and regulations framed in the interests of the depositors.

Actual Operations.

By the end of 1883 there were 402 accounts of depositors and the assets of the Bank amounted to Rs. 620540 all of which excepting a floating cash balance of Rs. 11,320-14-7 deposited in the Bank of Hindustan was represented by mortgage of house property. But as mortgages depreciated, specially that on the House of Sheikh Abdulla, a loss of one-sixth was made from the depositors' account by transfer to a special account in 1830, being then estimated at about Rs. 1,60,000. Again in 1833 about two lakhs had to be struck off and another half-lakh as other mortgages depreciated. This reduced the value to Rs. 3,75,000. From this sum again about Rs. 75,000 had to be deposited to pay arrears of dividends to depositors. So three lakhs

remained to be divided among all the depositors whose claims amounted to 10 lakhs of rupees.

REASONS FOR FAILURE.

The main loss to the Bank was solely due to the depreciation of the house property and the sad mistake committed by the Bank in preferring this type of security to all others. There was an entire sacrifice of the principle of the spreading of investments of the banks. Roughly all eggs were placed in the same basket. But the depositors, however, congratulated themselves on their good fortune for not having lost their entire property, which fate befell all the depositors of the Agency Houses which failed just at that time. Even if we refer to contemporary history of the Savings Banks in the United Kingdom we meet with similar failures of these institutions. Many of these started in the early years of the nineteenth century from 1817 to 1841 failed as a result of series of frauds in the management which swallowed a quarter of a million of the hard-earned savings of the poor. The first Postal Savings Bank was opened only in September, 1861 as a result of Mr. Gladstone's efforts in this direction.

The expenses of the Bank amounted to roughly Rs. 150 a month. There was thus no sacrifice of the sound canon of economy in the management of the banking institution.

Although the Government appointed three ex-officio Directors to help the Board in the management of the business, yet there was no other responsibility on the part of the Government arising out of the failure of the mortgages. The Government Directors were indeed negligent in the matter of not insisting upon a prompt recall of all loans as soon as they realised the depreciation of the mortgaged property. They also tolerated the laxity of the officers in respect of collecting all arrears in the matter of interest on the part of the defaulting borrowers. There was no attempt at foreclosing the mortgages and selling the property. The Government itself never communicated the fact of mismanagement to the depositors. From a contemporary paper of this period (49) it can be gathered that the Government originally intended to inform the depositors that there was no Government security behind the institution but this was not communicated even though it knew or had an inkling of the mismanagement of the Bengal Military Bank. One of the depositors, by name Captain Rawlins suggested to the other depositors the possibility of bringing a Civil suit against the Government for this mismanagement. Two leading barristers were consulted on this point of Government responsibility. On their advice the suggestion of instituting legal proceedings against the Government was ultimately dropped. Most of the aggrieved depositors belonging to the 38th Regiment, Privates as well as non-Commissioned

(49) *See* the Bengal Harkaru—May 7th—Quoted by the Asiatic Journal.

officers, sent in a monster petition to the Government praying for mercy and refund of their deposit money. But nothing came out of this appeal.

The next mention of the Bengal Military Bank is made on 20th May, 1833 when it was decided that 60 per cent. of the depositors' money was to be paid back to them. The last mention of the Bengal Military Bank was made in 1838 March when a further declaration of dividend of five per cent. was made. It was also decided that the "remaining properties were to be put to auction early next month and it was expected that the proceeds will realise sufficient to give the depositors a further dividend of twenty per cent. making a total dividend, say, of 12 annas in the rupee."(50)

The history of the other Military Banks is not so eventful. The Bombay Military Bank (51) was started in July, 1829 and as soon as the Government Savings Bank was started in Bombay in 1835 the Bombay Government soon closed the Bombay Military Bank and gave the option to the depositors of transferring the account including the interest to the Government Savings Bank or withdrawing it altogether for all interest would be discontinued from 1st May, 1839. (52) The history of the Madras Military Bank is outlined in a Blue book already.(53)

(50) *See* the Asiatic Journal, 1838, March—Number.

(51) For the details of this Bank, *see* Chapter II of this monograph part two. The Bombay Military Bank should not be mistaken for the Bombay Military Fund. The history of the Bombay Military Fund can be obtained by consulting the Asiatic Journal—July—1838, p. 151.

(52) *See* the Government Notification dated 11th March, 1839 of the Bombay Castle Gazette—Quoted in the Asiatic Journal—June—1839, p. 147.

(53) *See* the Madras Manual of Administration—Vol. I, 1886.

THE NATURE OF THE MILITARY BANKS.

An attempt was made to describe the methods and procedure of the Military Banks. From the above description it is apparent that they were no commercial banks issuing notes or post-bills intended for the accommodation of gentlemen living at or going to other settlements than Calcutta. They did no regular banking business, nor purchase bullion. They did not receive deposits to be repayable at sight. Thus it appears that they were pure Savings Banks intended to promote savings on the part of the military officers under the service of the East India Company. They resemble closely the modern philanthrophic or Trustee Savings Banks. It was the result of the attempt on the part of the Government to improve the economic condition of the military classes. [54] All the earnings after deducting the necessary expenses were to be divided

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(54) The following extract from the Head Quarters, Calcutta General Orders, proves the spirit and purpose of the Bengal Military Bank. (10 March, 1821).

"With a view to guard against any misapprehension that might be entertained regarding the peculiar object of the General Bengal Military Bank established by general orders of 23 Dec. last the most noble the Governor-General-in-Council is pleased to notify that the Bank having been instituted for the purpose of affording officers a needy mode of remitting and accumulating portions of their allowances it is not intended that it should receive large sums of money already possessed by Individuals—such an extension of the concerns of the Bank being inconsistent with the class and spirit of the institution.

His Lordship in Council is further pleased to announce that the 5th clause of the Regulations of the B. M. Bank is equally applicable to Natives and to European Regiments and that in any case where the Native officers and men of a Regiment or Battalion may form a Regimental Savings Bank under the authority of their commanding officer the same facilities of remittance through the Paymaster of the Division are to be afforded to them and this aggregate remittance carried to account in the same manner as those of an European Regiment."

among the shareholders in the form of interest which was to be credited to their accounts. The Government Directors can be compared to the trustees who operate the modern trustee savings banks without taking any remuneration. Just as the modern trustee savings banks are safeguarded from unexpected calls on the part of the depositors so also the Bengal Military Bank established the convention of paying the drafts of the depositors half yearly. The Military Banks were thus quite simple in character and confined themselves to the business of collecting money and investing the same without any risk. Thus their main business was to transfer capital and the manufacture of bank money was not their object. They had only the aim of redistributing capital amongst the points of highest yield but yet safe at the same time. The economy yielded by these Military Banks was the maximising of the earning capacity of the capital placed in their hands. They must also be considered as the legitimate fore-runners of the Government Savings Banks which were later on established in the Presidency Towns between 1833 and 1835.

THE FINAL LIST.

The correct and complete list of Banks would, therefore, be as follows. These might have been started either by the European Settlers or the Governments of the different Provinces.

(Col. I.) Name of the Bank.	(Col. II.) Date of formation.	(Col. III.) Branches.
1. The first Company's Bank of Madras	1683	*Nil.*
2. The first Company's Bank of Bombay	1720	*Nil.*
3. The Bank of Hindostan ..	1770	*Nil.*
4. The General Bank of Warren Hastings ..	1773	Hugli, Nadia, Jessore, Burdwan, Midnapore, Birbhum, Murshidabad, Pachiti. Dacca, Rajmahal, Dinajpore, Purnea, Rungpur, Bhagalpore.
5. The Bengal Bank ..	Exact year not known—in existence by 1784	*Nil.*
6. The General Bank of India	1785	*Nil.*
7. The Carnatic Bank ..	1788	*Nil.*
8. The British Bank ..	1795	*Nil.*
9. The Asiatic Bank ..	1804	*Nil.*
10. The Second Government Bank of Madras ..	1805	*Nil.*
11. The Bank of Calcutta ..	1806	*Nil.*
12. The Bank of Bengal ..	1809	No branches excepting agencies during the period of our study.
13. The Commercial Bank (Sponsered by Mackintosh & Co.)	1819	*Nil.*
14. The Bengal Military Bank	1821	*Nil.*
15. The Calcutta Bank (started under the auspices of Palmer & Co.) ..	1824	*Nil.*
16. The Bank of India ..	1828	*Nil.*
17. The Military Bank of Bombay	1829	*Nil.*
18. The Madras Military Bank	..	*Nil.*
19. The Union Bank ..	1829	Singapore and Mirzapore.

	(Col. IV.) Head Office.	(Col. V.) Date of Closing.	(Col VI.) Remarks.
1.	Madras	Not known	Bank of deposit only.
2.	Bombay	Closed in 1783	Originally planned as a Bank of Issue.
3.	Calcutta	1831	Symes Scutt mentions the fact of its reorganisation and its failure in 1866 but contemporary papers make no reference to this re-organisation. Symes Scutt does not quote either any details of reorganisation or mention the sources of his information.
4.	Calcutta	1775	No failure of the Bank. But due to opposition in Council it had to be closed.
5.	Do.	1791	Stringency due to war-financing in the Calcutta Money Market might have led to its failure.
6.	Do.	1791 *See* Chap. three Part Two of this Monograph.	Wound up according to terms of the organisation says Cooke. There was no reorganisation. Even the Bank building was sold by auction. *See* Carey "Annals" of Hon'ble John Company.
7.	Madras	Exact date not known	Might have failed as a result of the Government Bank's competition.
8.	Do.	Do.	Ditto.
9.	Do.	Do	Ditto.
10.	Do.	Wound up in 1840	No failure, but reorganised as a result of commercial agitation to have a more useful bank.
11.	Calcutta	Rechristened as the Bank of Bengal.	On receiving the Charter the name was changed to the Bank of Bengal.
12.	Do.	Amalgamated with the Presidency Banks.	It is a part of the present Imperial Bank of India.

	(Col. IV.)	(Col. V.)	(Col. VI.)
13.	Calcutta	In 1828 failed	It was displaced by the Union Bank.
14.	Do.	Wound up in 1836	Failed as a result of depreciation of investment of real estate and house property.
15.	Do.	Wound up in 1828	Displaced by the Union Bank.
16.	Do.	Failed in 1829	It could make no headway as the organisers had no solid backing to support them in their endeavour.
17.	Bombay	Wound up in 1839	It was amalgamated with the G. S. Bank of Bombay.
18.	Madras	Do.	Ditto.
19.	Calcutta	Failed in 1847	For a decade it competed successfully with the Bank of Bengal but mismanagement after 1839 led to its failure

	(Col. I.)	(Col II.)	(Col. III.)
20.	The Agra and United Service Bank	1833	Calcutta, Bombay, Madras, London, Lahore and Canton.
21.	The Government Savings Bank	1833	Presidency Towns.
22.	The Bank of Mirzapore	1835	*Nil.*
23.	The North-West Bank of India	1840	London, Calcutta, Bombay, Delhi, Cawnpore, Simla, Mussurie.
24.	The Bank of Bombay	1840	Branches in Bombay itself.
25.	The Bank of Ceylon	1840	Agencies, at Colombo, Madras, Bombay—Branch at Kandy.
26.	The Bank of Western India	1842	Colombo, Calcutta, Hongkong, Singapore.

	(Col. I.)	(Col. II.)	(Col. III.)
27.	The Agra Savings Fund	1842	*Nil.*
28.	The Bank of Madras	1843	No Branches during the period of our study.
29.	The Delhi Banking Corporation	1844	London, Calcutta, Bombay, Allahabad, Lucknow, Mussurie and Madras.
30.	The Simla and Umballa Bank	1844	Umballa.
31.	The Cawnpore Bank	1845	*Nil.*
32.	The Benares Bank	1845	*Nil.*
33.	The Commercial Bank of India	1845	Calcutta, London, Canton and Shanghai.
34.	The Oriental Bank	1846	Calcutta and Colombo.
35.	The Dacca Bank	1848	*Nil.*
36.	The Oriental Banking Corporation	1851	Scotland, Mauritius, Melbourne, Sydney, Galle.
37.	The Comptoir d'Escompte of Paris	1848	Calcutta, Bombay, Madras and Pondicherry, 1860.
38.	The Chartered Bank of Asia	1852	*Nil.*

	(Col. IV.)	(Col. V.)	(Col. VI.)
20.	Originally at Agra — soon transferred to Calcutta. Registered as a limited liability Bank in 1858.	Winding up in 1894	Symes Scutt says it failed in 1900. He mentions no source of his information.

	(Col IV.)	(Col. V.)	(Col. VI.)
21.	Presidency towns	Taken up by the G. Post Office in 1896	Change in the management of the Banks.
22	Mirzapore	Failed in 1836	Clear proof of the fact that the people in the interior could not appreciate the utility of a Bank.
23.	Originally at Mussurie—transferred to Calcutta	Liquidated in 1862*	It affords a typical example of bank mismanagement.
24.	Bombay	Amalgamated with the Presidency Banks	It forms a part of the Imperial Bank of India.
25.	Colombo	Failed and its assets were handed over to the Oriental Bank	The amalgamated bank becomes the Oriental Banking Corporation.
26.	Bombay—removed to London in 1846	Did not fail	To secure the privileges of 1845 Act it removed to London.
27.	Agra	Date of closing not known	It might be that with the advent of Government P. O. Savings Bank it might have lost its business.
28.	Madras	Amalgamated with the Presidency Banks	It forms a part of the Imperial Bank of India.
29.	Delhi	Exact date of failure is not known	As a result of the successful working of the Alliance Bank of Simla it might have lost its business.
30.	Simla	Failed in 1893	Its place was filled up promptly by the late Alliance Bank of Simla.
31.	Cawnpore	Failed in 1851	Another inglorious example of Bank mismanagement.

* G.P. Symes Scutt mentions 1859 as the year of liquidation of the Noith-West Bank of India. *See* p. 56. (History of the Bank of Bengal).

	(Col. IV.)	(Col. V.)	(Col. VI.)
32.	Benares	Failed in 1850	The present Bank of Benares is not connected with this Bank in any way. Another example of incompetent management.
33.	Bombay	Failed in 1866	It took active part in speculation so rife in the days of 1866.
34.	London-another Board in Bombay.	Amalgamated with the Bank of Ceylon	By virtue of its amalgamaton it became the Oriental Banking Corporation.
35.	Dacca	Amalgamated with the Bank of Bengal 1862	It had purely local business.
36.	London	Failed in May 1884	For quite a long time it was considered as the strongest exchange bank in India. (x)
37.	Paris	Still working	It is the first strong foreign exchange bank to set foot into this country.
38.	London	Dissolved in 1856	The Colonial Office refused to favour it with a charter to its liking when it suggested amalgamation with another Bank.

	(Col. I).	(Col. II).	(Col. III).
39.	The Chartered Bank of India, Australia and China	1853	Calcutta, Bombay, Rangoon, Singapore, Hongkong and Shanghai.

(x) For the reasons that led to its failure—*See* the Bankers' Magazine—June

	(Col. I.)	(Col. II.)	(Col. III.)
40.	The Mercantile Bank of India, London and China	1853	Branches in Ceylon, Colombo, Kandy, Agencies at Canton, London, Shanghai and Calcutta.
41.	The London and Eastern Banking Corporation	1854	Calcutta and Bombay.
42.	The Chartered Mercantile Bank of India, London and China	1858	London, Calcutta, Madras, Singapore, Colombo, Hongkong, Shanghai, Kandy, Mauritius, Penang, London and Canton.
43.	The Central Bank of Western India	1860	Calcutta.
44.	The Uncovenanted Service Bank	1846	*Nil.*
45.	The Bank of Hindostan, China and Japan, Ltd.	1858	Bombay, Calcutta, and China.
46.	The London Bank of Australia and India ..	1850 ..	....

	(Col. IV.)	(Col. V.)	(Col. VI.)
39.	London	Still working	It is the doyen of the present-day Anglo-Indian Exchange Banks. It has, however, no branch in Australia.
40.	London	Wound up in 1857	It was amalgamated with the Chartered Bank of Asia to form the Chartered Mercantile Bank of India, London and China.

	(Col. IV.)	(Col. V.)	(Col. VI.)
41.	London	Failed in 1857	It could not start its branch in Bombay, due to the Court of Directors' hostility.
42.	Bombay	Wound up in 1892	The assets were handed over to the Mercantile Bank of India formed in 1892. (55)
43.	Bombay	Amalgamated with the Bank of Hindostan, China and Japan	Falls outside the scope of our survey.
44.	Agra	Wound up about 1894	Due perhaps to restricted business arising out of competition from the G. S. Bank.
45.	London	Failed in 1866	Due to mismanagement of the branches.
46.	London	Started at the time of the Gold rush	As the Charter was delayed the scheme was abandoned in 1853. (56)

It must not, however, be supposed that this list is an exhaustive one. All that can be claimed for it is that it is more exhaustive than the four lists mentioned in the early beginning of this chapter. The writer has come across various statements made by authoritative people of the attempts made to start banks in the interior. Messrs. Alexander and Co. which founded the Bank of Hindustan in

(55) As the Charter did not grant the Bank the power either to reduce or write down its capital or increase the capital by creating preference shares, the Charter was given up by the shareholders. *See* A.J.S. Baster—"The Imperial Banks," p. 112. The 1929 Company Amendment Act of England grants this power to the companies to reduce their capital by issuing redeemable preference shares and by the process of redemption the capital would be reduced under powers in the Articles alone without having recourse to invoke the aid of the Court.

Similarly, the English Companies can now increase their capital by issuing shares at discount after getting the necessary sanction of the Court.

(56) *See* the Bankers' Magazine—May, 1853—Circular of 1-4-1853, quoted herein.

1770 in Calcutta also strove to start a similar institution in the interior. One Mr. Ballard, a medical man of considerable skill was entrusted with the banking business of the Bank started at Bhauleah. It did not succeed (57) and had to be given up. Similarly, an attempt was made on the Bombay side in the first half of the eighteenth century by the Dutch people to start a Bank. Apart from the fact that it worked for a few years no details are forthcoming. It must also be realised that this list does not include a large number of banks which were started as soon as the limited liability principle was accepted in 1861. The Punjab Bank, Ltd., the Sind. Punjab and Delhi Banking Corporation, Ltd. the People's Bank of India, Ltd. and the Bank of Rohilkand were organised during these years, 1861 and 1862. All these banks are mentioned by C. N. Cooke in his Banking in India but they lie outside the scope of our survey.

THE AGENCY HOUSES.

Some information has to be given of the Agency Houses conducting semi-banking business along with trading and agency work. They were not only bankers attracting deposits and granting loans but "European shop-keepers, planters, shipowners, proprietors of breweries, tanneries, distilleries, cotton, flour and saw mills." It is not wise to

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(57) *See* Holt Mackenzie's Envidence before the Select Committee of the House of Commons—March, 1832—Questions—133 to 137.

put them out of the category of financial intermediaries of this period for in those days when the European Banks were few and few Europeans were allowed to settle in the country it is these that conducted semi-banking business and founded pure banks to deal in a more comprehensive and systematic manner with the banking needs of the population. It is tolerably clear then that an account of their operations should be given as they were the pioneers of the banking trade in this country.

Crawford says that the Agency Houses had originally no capital of their own and they depended on the great annual savings of the Company's servants. [58] This can be corroborated by another statement of an equally competent observer who says "that the Agency Houses were started chiefly of gentlemen who had been in the civil and military services who finding their habits better adapted for commercial pursuits obtained permission to resign their situations and engage in agency and mercantile business. They received the accumulations of their friends in the Company's service. They lent them to others or employed them themselves for purposes of commerce—they were in fact the distributors of capital rather than the possessors of capital. They made their profit in the usual course of trade and by difference of interest in lending and borrowing money and by commission. In course of time

(58) *See* J. Crawford—Sketch of the Commercial Resources and Monetary and Mercantile System of British India—1837.

carrying on successful commerce many became the possessors of large capital and returned to England having most part of it there. The Agency Houses became the usual depository of a great portion of the savings and accumulations of the Civil and Military services in India." (59)

Although it is the above quotation alone that recent writers have been making use of still not one of them has given us an idea of their real operations. More detailed information is available in the newspapers and magazines of that time. These describe not only the operations of these Agency Houses but try to place before the readers a description of the economic environment of this particular period. It was not the Company's servants in Bengal alone that were the sole depositors of their savings in the hands of the Calcutta Agency Houses. The Company's officers of the Madras and Bombay Provinces remitted their savings to the Agency Houses at Calcutta and the natives of Calcutta also deposited their savings in their hands for roughly ten per cent. was granted on these deposits. As the Government funds (*i.e.*) the new loans did not pay this high rate and as this rate of interest fell from ten to five per cent. the deposits of the Agency Houses must have increased.

The capital secured in this manner was loaned out to people engaged in indigo, silk, opium and cotton business. Their *modus operandi* can be

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(59) *See* the Evidence of T. Bracken before the Select Committee of the House of Commons—March, 1832.

easily grasped by noting the way in which they helped the indigo planters. Their transactions with the indigo planters can be considered as typical of their operations. Twelve per cent. was the rate at which money was usually loaned out to them. It could not have been higher than that, for the legal rate of interest could not rise above twelve per cent. But several other minor charges however were added *viz.*, a charge of one per cent. for receipts and disbursements.[60] Money was advanced to the planter monthly as subsistence allowance or money and petty charges were made on this amount. The produce had to be sent to the money-lending agent and the borrower had to pay commission for receiving and disposing it of. Altogether the rate they had to pay was about 18 per cent. or 20 per cent. on the borrowed sum. Even in the matter of loans to civil and military officers the proceedings were of the same character. Twelve per cent. was the legal rate that could be charged but charges had to be paid for receipts and disbursements. The borrowers had to insure their lives and for this the annual charges made amounted to the premium. Even this premium they never paid to the Life Insurance offices preferring to take the risk themselves, so that it was only a trick to raise the interest rate little higher. This was how they always evaded the usury laws of the time.

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(60) *See* Hon'ble F. J. Shore—"Notes on India."

It was not the ancillary banking business that has made them famous. Like the indigenous bankers of that time they attracted deposits and lent them. But these financial activities were overshadowed by those of the merchants, middle-men, brokers and industrialists. The partners of these firms could afford to live in "princely fashion" and in "the highest style of luxury." Notwithstanding this lavish expenditure they often returned home with the most princely fortunes. (61) They could afford to become the mercantile "leviathans of the East." They combined in their hand the part of several characters in addition to the role of bankers. They were bankers, shipowners, merchants and agents and possessed a complete monopoly of the whole of the foreign and internal trade of the country which was then about six times as large as the British Isles.

THEIR NUMBER.

As to the exact number of the earlier Agency Houses nothing definite can be stated. But Hon'ble F. J. Shore says, "that six or seven of these Agency

(61) Of the dividends paid by the older Agency Houses an idea can be gained by a perusal of the following table:—

Names of the Agency Houses.	*Rate of Dividend paid.*
Palmer & Co.	30 per cent.
G. Mackillop & Co.	26 ,, ,,
Alexander & Co.	6 ,, ,,
Fergusson & Co.	36 and ½
Mackintosh & Co.	14 per cent.
Colvin & Co.	24 and ½ per cent.

See the Calcutta Review—January—June, 1847, pp. 163-169.

Houses stood conspicuous in the City of Palaces." Crawford writing in 1837 gives us a list of the firms at the different trading centres. But several of them might have been created after 1813. With the opening of the trade with India by the 1813 Charter Act the English merchants could send their own agents "who had moderate ideas and moderate salaries." It was the serious competition of these new houses that must be reckoned as the chief cause of the failure of the older Agency Houses which still continued to live in "aristocratic fashion" without contracting their speculative dealings, reducing their establishments and retrenching their personal expenses. [62] They continued their mercantile speculations as before in the same old style investing freely in houses in Calcutta, indigo works, coal mines, ships, coffee and spice plantations, clearing desert islands as proprietors of land and working cotton, silk, and flour mills. By 1825 their position became very risky so that a competent observer Mr. Trotter suggested the formation of a new type of Agency Houses in place of these defective old ones. [63] Nothing came out of his suggestions.

The Immediate Cause for Their Failure.

The immediate cause for their failure was the withdrawing of money by their constituents on the

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(62) *See* J. W. MacLellan's Article on Banking in India —Banker's Magazine —1893, pp. 50-58.

(63) *See* the Asiatic Journal—Dec. 1825—p. 617.

pretext of sending remittances to Europe. After the failure of Palmer & Co. this became insistent and the Agency Houses borrowed by pledging property to satisfy the banking constituent's withdrawals. Their correspondents in England generally failed to honour the bills drawn on them by the Agency Houses and when this credit was refused they lost all banking business.(64)

THE MAGNITUDE OF THE CATASTROPHE.

Messrs. Palmer & Co. was the first company to fail and in spite of State support these Agency Houses could not withstand the shock. This reputed firm failed in 1830 and the rest of the "Princely mercantile houses" followed suit. It was Mr. Palmer of this Palmer & Co. who was styled "the Prince of the Calcutta merchants" and earned for himself a statue or bust in the Calcutta Town Hall. Its bankruptcy was followed by that of Alexander & Co., Cruttenden & Co., and others. The general ruin that befell the depositors of the city was almost unparalleled. It caused unheard of ruin to widows and pensioners who had embarked their all in these Houses depending with confidence on the security of baits held out in large interest for money invested in their firms. The effect of the ruin of the Agency Houses did not fall mostly on the partners of the Agency Houses for "most of them realising the storm coming ahead returned home with fortunes leaving

(64) Compare Crawford's estimate with that given in the Calcutta Review. It is Crawford's estimate that is quoted by C. N. Cooke, p. 348.

penniless adventurers to take their place in the fallen Agency Houses." Macaulay who landed in India just after the failure of the Agency Houses refers to the monetary stringency in the money market and its effect on the style of living of the Company's Officers.

CHAPTER II.

THE EVOLUTION OF FINANCIAL CAPITALISM.

The three-fold origin of modern capitalism.—The development of Commercial and financial capitalism during this period.—The search for a proper and logical basis of classification of banks.—Criticism of existing classification.—Chartered and unchartered.—The origin of the limited liability principle.—Classification based on the bank funds.—The main business of the commercial bank.—The exchange bank and its business.—Savings Banks.—The other denominational banks.—Salient features of Banking.—The gradual growth of banks during this period.—Widespread development of organised banking in Bengal.—Note-issuing of the Banks.—Banking policy following the general trend of events in English Banking circles.—Demoralisation of the Bank executives.—Not much inflow of banking capital during this period.—The genesis of British capital.—Reasons for the absence of the individual English capitalists during this period.

THE ORIGIN OF CAPITALISM.

Modern capitalism has gradually evolved out of a union of the three types of capitalism known as the commercial capitalism, financial capitalism and industrial capitalism. Commercial capitalism is indeed the first to appear on the stage and usher in

an era of financial capitalism. Both these can lawfully be considered as the precursors of industrial capitalism. This has been the order of progress in all the Western countries and India is no exception to this rule.

DEVELOPMENT OF COMMERCIAL AND FINANCIAL CAPITALISM.

During the first decade of the nineteenth century Indian economic life was mostly of a rural character. India was exclusively an agricultural country. There were indeed very few towns and capitalism did not develop as yet. But accumulations of capital must undoubtedly have existed. Capital was also mobile to a certain extent. With the passing of the Charter Act of 1813 the trading relations between England and India began to expand giving scope to further accumulations of wealth. Until 1833 and even after 1833 the immigration of European capitalists was held under partial check so that we do not witness the flowering of a large-scale industry and the employment of machinery or the development of round-about production. The merchants by grafting on banking operations began to develop into bankers.(1) They insured ships, received deposits and granted loans. As in most other countries so also in India the indigenous bankers began to make advances to the political rulers of the day. But this importance began to decline as soon

(1) For the services of the indigenous bankers see the chapter on "Some Specific Services of the Indigenous Bankers of Bombay."

as the East India Company began to evolve a financial organisation of its own. The indigenous bankers financed domestic industry till the formidable competition of the Western products of industrial revolution drove these products from the market. Another great reason for the development of financial capitalism was the variety of specie which circulated within the country. Money-changing became an important and lucrative occupation. We have however to trace the progress of banking which is the most important feature of financial capitalism with which we are concerned.

SEARCH FOR PROPER CLASSIFICATION.

For a scientific study of the evolutionary growth of the heterogenous miscellany of banks that have been outlined in chapter I a logical or systematised classification must be accepted so as to label the different kinds of banks according to the specialised nature of business they had undertaken. One such classification is the hackneyed one of Presidency or mofussil or non-Presidency Banks. This descriptive classification has to be discarded for the following foreign banks which were started during this period with a view to facilitate exchange banking trasactions with India cannot clearly be assigned a proper place under any of the above heads.

NAME OF THE BANK.	HEAD OFFICE.	BRANCHES IN INDIA.	REMARKS.
The London and the Eastern Banking-Corporation.	London, 1854-1857.	Simla—1854-1857	Failed in 1857. (2)

(2) *See* the chapter on "the Private Banks in Bombay."

NAME OF THE BANK.	HEAD OFFICE.	BRANCHES IN INDIA.	REMARKS.
The Oriental Banking Corporation.	London, 1851	Bombay, Calcutta and Madras.	Failed in 1884.
The Bank of Ceylon	Colombo, 1841-1849.	Presidency Towns of India.	Amalgamated with the Oriental Bank.
The Chartered Bank of Asia.	*London, 1851*	*Not actually started*	*Amalgamated with the Mercantile Bank of India in 1856.*
The Chartered Bank of India, Australia and China.	*London, 1853*	Calcutta, Bombay	*Still working.*
The Chartered Mercantile Bank of India, London and China.	London, 1858	Calcutta, Madras and Bombay.	Failed in 1866 due to mismanagement of branches.
The Comptoir'd Escompte.	Paris, 1848	Calcutta, Bombay, Madras, Pondicherry (1838 to 1860).	Still working.
The London Bank of India and Australia.	London, 1850	No actual starting of business.	As the charter was delayed the scheme was abandoned in 1853.(3)

CRITICISM OF EXISTING CLASSIFICATION.

Again some of the Banks which were originally started in India had to shift to London to obtain the benefit of the Act which permitted the Banks to be registered with limited liability. The Agra and United Services Bank of Agra shifted its Head Office from Calcutta to London in 1857 to secure the advantage of the above Act. But prior to this transfer there was a similar movement on the part of the Bank of Western India in 1846 to secure the advantage of the Joint-Stock Banking Act

(3) *See* the London Banker's Magazine—1853.

(7 and 8 Victoria Regina, Chapter III). By this Act Royal Letters Patent were given to the banks to enable them to sue and be sued in a corporate capacity. This right was first granted to the Colonial *Banks by the Board of Trade and extended to the other Joint-Stock Banks of London in 1845. Many of the Indian Joint-Stock Banks applied for a like* privilege to be granted to them in this country. Some applied for a charter being granted to them on the model of the Bank of Bengal.(4) Though the Court of Directors refused to grant this privilege of a Charter it did not, however, refuse the granting of the privilege on the model of the 1845 Joint-Stock Banking Act of England. Prior to this Act the Acts of 1826 and 1833 granted this power and stimulated public interest in Joint-Stock Banking in England. In 1845 the Union Bank of Calcutta applied for this privilege and secured it.(5) This indicates clearly how closely events in Indian Banking circles were shaped by the trend of the banking policy pursued in England. The Joint-Stock Banks of the North-West Provinces made a similar application in 1846 to secure this coveted privilege.(6) It

(4) *See* the Evidence of Mr. P. Gordon—before the House of Commons Committee—1831.—Similarly the Court of Directors refused to grant a Charter to the Bank of Western India.

(5) Though the history of the Union Bank is supposed to be fairly written by C. N. Cooke, we do not find this important fact mentioned by him. *See* the Calcutta Review" Article on the Acts of the Governor-General of India in Council"—The right to sue and be sued in a corporate capacity without weakening the unlimited liability of the shareholders was the essence of this Act.

(6) *See* Allen's Memorandum on Joint-Stock Banks in the N. W. Provinces. Thomson's Despatches—Vol. II.

is quite clear that they did not secure this privilege for C. N. Cooke mentions that in 1850 they were presenting a joint memorial to the Governor-General pointing out the inadequacy of the law with reference to Joint-Stock Banking in this country. Throughout this period the general tendency of the successful banks was to undertake exchange business and open ultimately a branch or transfer the Head Office to London.(7) The anonymous writer of the article entitled the "Acts of the Governor-General of India in Council" in the Calcutta Review of 1847 says that "the only Joint-Stock Bank which has obtained the power to sue and be sued by its public officers to which power are superadded a few special provisions to make shareholders liable to creditors" was the late Union Bank. In 1845 there were only two incorporated companies, namely, the Assam Co. and the Bengal Bonded Warehouse Co. but these were not banks.

Another reason why this irrational classification has to be discarded is its inability to furnish any information about the nature of the business of these banks which had large capital resources and were forced to open Agencies in the Presidency Centres and to say that they were purely mofussil banks is a travesty of truth. Calcutta was not only the administrative centre where the loans of other Provincial Governments were floated but

(7) *See* George Dickson's Memorandum on the Amalgamation of the Presidency Banks included in the collection of papers on the Central Bank.

it was the most important monetary centre for the whole of the country. Banks conducting business on a large scale could not but open business in Calcutta. This was the reason why the newly started Bank of Bombay finding its paid-up capital to be too large for profitable employment in Bombay alone strove to open a branch in Calcutta.

Chartered and Unchartered.

The next classification is that of the chartered and non-chartered banks. It must be borne in mind that till the year 1807 the Government in India was considered powerless to establish banks within the local limits of the jurisdiction of the Courts established by the Royal Charters. Hence an Act of Parliament—Act 47 George 3rd—c 68 was passed empowering the Government in India to start banks with the approval of the Court of Directors and the Board of Control. But this Act did not decide clearly whether the Government could be a shareholder in any banking Company. When the Presidency Bank of Bombay was being organised in 1837 doubts were raised as regards the legality of the Government's action in subscribing to the capital of the Bank. The advice of Sir Fredrick Pollock and the Attorney General,[8] J. Campbell

(8) The opinion of Mr. J. Campbell was unfavourable towards the East India Co. possessing shares in the Banks of Bengal and Bombay. This meant undertaking *commercial business in violation of the Bank Charter Act of 1833.* Sir Frederick Pollock was of the opposite opinion and considered that the Charter Act of 1833 permitted such a procedure. *See* the Asiatic Journal, 1839—June to Dec. issue.

was taken and sent to the Court of Directors. But even before the reply was received the Bombay Government decided to become a shareholder of the Bank and the protest of the commercial houses at Bombay proved a failure.

The above classification cannot be of any utility to the students of Banking of this period. Banking was entirely free and anybody could gather a few shareholders and form a co-partnership banking concern to conduct banking business. The *Gomasthas* or corresponding *Kotlees* of the indigenous bankers of Gwalior and Lahore were able to conduct banking business at Calcutta without any question as to the terms of the partnership. They had the power to sue and be sued in their own or in their principal's name. They usually gave bills and held securities in the name of their principals. Though there was no general incorporation law permitting the joint-stock banks to take advantage of the limited liability principle till 1860 the Union Bank could secure identical privileges without the limited liability privilege. The Indian Joint-Stock Banks started prior to 1860 were based on co-partnership basis but they strove to secure the privileges granted to the Union Bank of Calcutta.

THE ORIGIN OF LIMITED LIABILITY PRINCIPLE.

Coming to the privilege of the limited liability and of the general incorporation law it must be recognised that it was the Napoleonic Code that gave legal sanction to it. But even before this

public recognition became an established fact the state of companies in France closely resembled the joint-stock type of organisation.(9) The United States of America soon copied this useful privilege in 1812. In 1782 the Irish Parliament granted the general right of incorporation. The General Bank of India started in 1785 adopted this principle but the honour of pointing out the way in this direction certainly does not belong to this country. Great Britain enacted the general law of incorporation in 1857 and India closely followed her example in 1860. Thus the claim of our pointing out the way so far as the incorporation of banks on limited liability is concerned cannot be pressed far in the light of the above facts.

CLASSIFICATION BASED ON BANK FUNDS.

If the use of Bank funds which is the only logical basis of any classification is to be considered, we find the following classes of banks. The Presidency Banks conducting specified banking business according to the regulations outlined in

(9) Even in the early Middle Ages there were societies in Italy known as the —*Commenda* which worked like modern limited partnerships. There was joint-stock form of organization in the mining companies in Germany in the beginning of the sixteenth century. It was the Dutch East India Company whose shares were freely transferred from hand to hand and the joint-stock company as a business organisation was perfected only by the Dutch at the end of the 16th century. *See Henry. See* Modern Capitalism.—Its Origin and Evolution—English *Translation—1928, p. 193.*

France began to develop these Joint-Stock Companies *en commandite* in mining and the Calico Printing industry. See Ibid pp. 133-135.

the Charter of these banks, can be considered as commercial banks pure and simple without encroaching as is the general tendency in the modern days on the pure exchange work of the exchange banks. Some of the local banks like the Dacca Bank which was absorbed by the Bank of Bengal in 1862; the Rohilkand Bank started under the fostering care of the Nawab of Rampore; the Sindh Punjab and Delhi Banking Corporation which was started mainly to finance the construction of railways in the Punjab and the North-Western India; the People's Bank of India, Ltd. which was meant to fill the void in the matter of financing the middle class people of Calcutta, the General Bank of India, the Cawnpore Bank, the Benares Bank, the Simla Bank, the Delhi Bank, the Mirzapore Bank, and the Bengal Bank fall into this category. But it must be understood that when competition became keen as in the case of the Bengal Bank, the General Bank of India and the Bank of Hindostan the first mentioned bank had to extend its services in the direction of exchange business also.(10)

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(10) Observing this tendency George Dickson rightly made the following generalisation which contains, however, some amount of truth in it."If, however, we go back a little and trace the rise, progress and fall of banking in India it would be found that without almost an exception every European Bank started in this country soon lost its distinctive character of a bank proper and either became insolvent or found itself established in London as a bank of exchange."—*See* his letter dated 1st March, 1867 to the Directors of the Bank of Bengal—Memorandum on the Amalgamation of the Presidency Banks. p. 119—*See* the Parliamentary paper entitled the Old and the New Bank of Bombay included in the collection of Parliamentary Papers on Banks—1840-1870 (Calcutta University Library).

THE BUSINESS OF THE COMMERCIAL BANK.

The primary business of these Commercial Banks was to provide facilities for internal remittance and finance the requirements of the Company's servants. On account of the decay of the indigenous banking institutions internal remittance was then a great banking problem involving enormous expense and a good deal of trouble. Dacoity and highway robbery which were very frequent in Bengal at that time meant the incurring of very large expenditure on the part of the merchants as well as the Government in carrying specie from one part of the country into another. These banks by means of their post bills tried to extend their utility in this direction. The Company strove to sell bills on the interior treasuries and thus secure the flow of funds into the metropolis. Education in the matter of cheque currency must also have contributed its own quota towards mitigating the hardships involved in this connection. But it must be distinctly understood that these cheques have not become very useful to the public as a means of payment or remittance even now. It is a matter of gratification to recognise that in England as well as India it was the endeavour to cater to the needs of the public in the matter of remittance that led to the rise of banking as opposed to pure money-lending and discounting of bills. In most cases of other Colonies and Dominions "it was the unreliability of local paper currency that led to the development of banking institutions." [11]

(11) *See* Arndt-Banking and Currency Development in South Africa,—Part II, Chap. II.

The chief items of banking business can be understood by the following quotation from the deed of co-partnership of one Bank of this period. "That the business of the said bank shall consist in issuing promissory notes in the purchase, sale and negotiation of bills of exchange in discounting bills and notes, in lending money on the security of individuals and of personal and real property for such periods and on such terms of interest as may be determined by the Directors in granting cash credits in the purchase and sale of coin and bullion and Government securities in the receipt of cash at interest in money agency and any other branches of business commonly carried on by bankers subject always to such rules and restrictions as the proprietors at any general meeting from time to time direct." It is apparent then that there was not any clean-cut distinction between the commercial Banks and the exchange Banks. They were dual-rolled and were exchange banks at the same time while they discharged the functions of a commercial Bank. Even now the situation is the same. Barring a few of the smaller English Joint-Stock Banks the rest of the commercial Banks undertake foreign exchange work. This situation of combined banking business is amply borne out by the practical working operations of the Indian Banks of this period.

The Exchange Bank and its Business.

Coming to the pure exchange banks of this period the most prominent of them were started

by the Agency Houses. The Calcutta Bank, the Commercial Bank of Calcutta, the Agra and the United Service Bank and the Union Bank of Calcutta, the North Western Bank, the Bank of Western India, the Commercial Bank of India and the Mercantile Bank of India were some of the other important exchange banks organised in India to conduct internal remittance and exchange banking work. They had their Head Office in India and opened branches in London and the far-Eastern trade centres. The Chartered Bank of Asia, the Oriental Bank,(12) the Chartered Bank of India, Australia and China, the Chartered Mercantile Bank of India, London and China, the Comptoir'd Escompte, the Bank of Ceylon, the Oriental Banking Corporation had their head offices in London or elsewhere and by means of extensive branch bank organisation at Calcutta, Bombay, Kandy, Colombo, Penang, Singapore, Canton, and Shanghai they concentrated their main attention on exchange business. Most of the banks had the privilege to issue notes beyond the confines of India and everywhere it was their object to cultivate local banking business at the same time.

SAVINGS BANKS.

Savings banks were also in existence and the Bengal Military Savings Bank, the Bombay Military Savings Bank, the Madras Military Savings Bank,

(12) The Oriental Bank issued notes for a while but the Charter of 1851 deprived it of this right to issue notes in India.

the Agra Savings Fund, the Uncovenanted Service Bank of Agra and the Government Savings Banks at Calcutta, Madras and Bombay must be reckoned under this heading. Mention has been made of the Serampore Savings Bank. Being purely a private institution under the care of the missionaries no mention of this is to be found in the Government Records of this period.

Other Denominational Banks.

Of the other specialising banks such as the Agricultural and Industrial Banks none of them could have existed during this period. Even now such institutions specialising in long-term loaning to agriculture and industries are conspicuous by their absence.[13] It is indeed true that some of the present-day loan and banking companies attempt mortgage banking and try to lend for long periods but this is evidently an undesirable tendency which has to be checked in the interests of the depositors in general. The mistakes of these smaller banks recoil on the other banks and it is difficult for them to create the banking habit.

Salient Features of Banking.

Before commenting on the detailed nature of the work of these different kinds of banks some general remarks on the salient features of the banking situation must be offered so as to clear the ground for what follows and to remove any false impression

(13) *See* the chapter on "Mortgage Banks and Agricultural credit" in my book "Present-day Banking in India".

that might be created as regards the level of prosperity on the part of the community. Though as many as forty-eight banks have been enumerated it must be realised at the outset that all of them did not have continued existence throughout this entire period. During the first half of this period *viz.*, 1770 to 1815 very few banks have been started. Many of them were commercial banks and generally confined their business to the people of their own locality. The General Bank started by Warren Hastings in April, 1773 had a short-lived existence for about 20 months in all. Barring the Bank of Hindostan the rest of the Bengal Banks could not survive the monetary stringency of 1791. The Banks started by the Agency Houses, however, continued to flourish. It was not until their fortunes were effected in 1831, that this banking institution ceased to exist. So far as the Banks in Madras were considered they continued to exist during this period but as their utility was of a doubtful nature the Governor started the Government Bank of Madras in 1805. We have referred to its chequered history already.

Even during the first half of the second period of our study, *viz.*, 1815 to 1857 no new major banks have been started with the exception of the Union Bank of Calcutta and the Agra Bank and the mofussil institutions of the North-West Provinces. Both these major banks were essentially meant to fill the void created by the failure of the Agency Houses. The Bank of Hindustan failed during "the awful crisis of 1831."

Many fruitless endeavours were made to start banking institutions in England to conduct Exchange transactions with India. One such proposal was to start a "big bank with five million sterling of capital." This proposal was made in 1836 and the object was to bring about a fusion of it with the Bank of Bengal, undertake Government Business, circulate bank paper throughout the country, obtain a monopoly of paper currency in India and make remittance to England direct and through China. But it had to be given up on the plea that the management of the remittance operations was being conducted on sound lines by the East India Company itself. Another reason was that the new Bank aimed at a monopoly which was more comprehensive than that enjoyed by the Bank of England itself. Consequently, it would have a great power on the money market and the extensive use of paper currency comtemplated by it would have disastrous consequences. Mischievous results would flow out of a more close connection than the one existing between the Bank of Bengal and the Government.(14) It would greatly embarass the

(14) *See* the Financial Consultations—Nos. One to Four—2nd August, 1837—the Government of India which contain the reply by the Bank of Bengal, the different minutes written by the various directors, Mr. Prinsep's Minute on banking as applied to India and Mr. John Fullarton's Minute on Banking. All these dispose of the various grounds on which the London Merchants wanted to start the big bank. Although it is usual to quote only the Governor-General's Minute and the one written by the Bank of Bengal the other minutes appended to the Bank's letter and the two Minutes of Mr. Prinsep and Mr. Fullarton contain a good deal of information on banking conditions and the habits of the people. Mr. Fullarton's Minute is the more valuable and it seems that it was later on printed in a pamphlet form. Contemporary banking history was freely quoted by him in support of his arguments.

administration and evolve a host of practical evils. The extensive branch banking it would involve would not necessarily succeed as the previous attempt at branch banking by the Bank of Hindostan proved a failure.[15] But steps were immediately taken to increase the capital of the Bank of Bengal and start a Bank in Bombay but on account of the delaying[16] tactics of the Bombay merchants who found the Sub-Treasury useful for their deposit business and never consequently desired a rival bank to undermine their importance it was actually started so late as in 1840. The Sub-Treasury proved to be useful as a bank of deposit, bank of issue and bank of discount.[17]

Gradual Growth of Banks.

Coming to the last period of our study 1837 to 1860 the outstanding feature at the beginning was the smallness of the working capital of the existing banking institutions. The advertising prospectuses of the East India Bank which was proposed to be started in London and that of the Bank of Asia in 1842 explain clearly the nature of the work of the then banking institutions of our country. At that time, *viz.*, 1837 there were only five banking

(15) *See* Fullarton's Minute.

(16) *See* the Times of India—19th April, 1840. Three years and nearly four months have elapsed since the first subscription to it. It was only after surmounting a series of such difficulties and obstacles as we believe no similar institutions ever encountered before and such as we believe and may safely predict no institutions for the public good will encounter again.

(17) *See* chapter on Futile attempts to found banks in Bombay—Part II of this monograph.

institutions; of these two were doing business in Calcutta. These were the Presidency Bank of Bengal and the Union Bank. The Presidency Bank of Bombay was just then ushered into existence in 1840. Plans were maturing for the starting of a Presidency Bank in Madras. The fifth Bank was the Agra Bank with its Head Office at Agra. Its business was solely restricted to lending money to borrowers who were mostly connected with the Company. Generally speaking the business of these banks was confined to the people of their own locality. There was no bank in London started exclusively for the conducting of the exchange business with India. The new British mercantile firms which stepped into the void created by the failure of the Agency Houses at Calcutta had to open their establishments at Calcutta. Thus a part of their capital must have been sent by them. So far as the Province of Bombay was concerned the old Agency Houses continued to exist without any interruption till the starting of the Bank of Bombay in 1840. Thus it is quite evident that there was no perceptible flow of Banking Capital from Great Britain to India. It was evidently to transfer the surplus capital from London to India that the banking proposal of 1836 aimed at. In almost all centres there were indigenous bankers with enough capital to meet the requirements so much so that branch[18] banks whenever attempted failed to

(18) *See* H. T. Prinsep's Minute—Financial Consultation of the Government of India, No. 3—1837.

secure trustworthy clientele. In all these centres there was no differentiation between the functions of a banker and trader. The then private banker like his modern confrere was not a pure and simple intermediary between the buyer and seller of capital. The two duties of banker and trader have not become differentiated as yet. Banking was considered as a graft on ordinary merchandise.

It was in the last quarter of this period (*i.e.*) that Banks were established in India as well as Great Britain to secure chiefly some of the following advantages which would be the resultant effects of widespread banking in this country and linking it with England by establishing banking services between the two countries. That the necessity of exporting specie from England would be avoided, that there would be a lowering and equalising of the rate of interest for money, that the rate of exchange with England will be steadied, that trade between the two countries would be greatly augmented by the establishment of general confidence, that profitable investments for funds would be forthcoming and that England would easily become the monetary centre of the world were easily recognised by the promoters of the banking institutions of this period. It was for the realisation of these objects than Mr. R. M. Martin strove his level best to found the Bank of Asia and secure a charter

for it in London [19] in 1841. Almost all the pure exchange banks started either in India or in London belong to this period and a large number of the forty-eight banks mentioned in the first chapter have been established during this period.

Widespread Development of Organised Banking in Bengal.

The second conspicuous feature is the widespread development of organised banking in the Bengal Province. The other Provinces [20] were almost very backward in this respect and were depending more or less on the mercantile houses for their financial and banking services. Madras was certainly more fortunate than Bombay in this respect and the Early Banks of Madras conducted business and conducted the internal remittance function to a great extent specially with the Province of Bengal.

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(19) For the reasons which actuated the Government of India to refuse sanction to this bank to conduct business in India *See* the Correspondence relating to the projected Bank of Asia Parliamentary Paper printed in 1843 April 7th. *See* the very clear and able Minute of H. T. Prinsep on this subject. It gives a detailed history of the scheme of the Bank since its inception in 1840 in London. Its trials to secure a charter are also narrated therein.

(20) The development of the great banking firms in the Punjab was due to the commercial prosperity of the province arising out of the systematic development of trade and commerce resulting out of the construction of public works, roads, bridges, and canals, and the economic development of the province under the Board of Administration appointed by Lord Dalhousie during 1846 to 1856. The feudal aristocracy that surrounded the camp of Ranjit Singh was fast displaced by the thrifty traders, hardy yeomen, enterprising capitalists and commercial classes. Until the disturbed state of society so graphically described in the First Punzab Report was improved material advancement could not take place and the late starting of the Joint-Stock Banks in the Punzab can be easily accounted for by this fact.

It has been recorded by historians that the Dutch attempted to start a Bank in 1746 in Bombay. But very little is known of its operations.[21] The Earliest Bank of Bombay conducted business of a very restricted nature. It was as a result of the rapid opening of branches by the Exchange Banks in the Presidency centres that Banking began to spread rapidly in the Presidency centres. Bombay did not as yet secure the present-day commercial ascendancy over Calcutta. It is true that during the 1850 to 1860 decade three important banks were started in Bombay. But until the cotton boom appeared in Bombay during 1864 to 1866 Bombay could not compete effectively with Calcutta in the matter of trade or finance or industries. At any rate throughout this period it was not the *Primus Urba Indus* the first city in India.[22] On the other hand the Bank of Bombay followed the leadership of the Bank of Bengal and this economic leadership of the Province of Bengal becomes patent to all observers of the monetary and banking conditions of the different Provinces during the period of our study. In the matter of popularising copper currency the attempts made by the Bengal Government had to be copied by the other Provinces. It is indeed true that the central authority was located

(21) The Bombay Government Record Office has the Dutch Records of the Surat Settlement transferred to it. These cover the period 1748 to 1810. No mention of this Dutch Bank exists in the records of this period.

(22) *See* G. W. Chine—Asst. Commissioner of Currency—Remarks on the State of Paper Currency of India—p. 31.

at Calcutta and any action of the Provincial Government had to be sanctioned by the Supreme Government but broadly speaking the previous experience of the Bengal Province was drawn upon to enable them to arrive at a happy solution of their difficulties. It is not indeed difficult to explain the economic superiority of Bengal to the other provinces. Bombay was comparatively poor and had infertile territory and smaller population than Bengal with its 42 millions. The staple products of Bengal were indigo, silk, sugar, rice, opium, and cotton while Bombay could boast of cotton alone and few coarse grains grown in rotation with cotton once in three or four years. It seems reasonable then to infer that Bengal could possess a developed banking system of its own.

NOTE-ISSUING OF BANKS.

Thirdly, as the contemporary English commercial Banks of that period issued notes so also did the early Indian Banks of this period issue notes while conducting business during this period. Note-issuing was considered a part and parcel of banking business. No legitimate prohibition existed against this privilege. All the Joint-Stock banks of the North-West Provinces had the idea of issuing notes which was included in the items of their business which they proposed to undertake. But without any encouragement on the part of the Government these could not become popular instruments of currency. This cold reception on the part of the Government must

have undoubtedly reacted on the Banks who must have given up this privilege in disgust. A perusal of the letter makes it clear that the Agra Bank made an honest endeavour to secure concessions from the Government but as these were refused the note-issue was given up.[23]

Some of the organised Banks started for exchange business as the Bank of Western India did issue notes only for limited amounts. The notes of the Presidency Banks even were not declared legal tender. The notes of the Chartered Banks were not allowed to be legal tender in the colonies. The Hon'ble the East India Company did nothing to encourage the private bank note-issue. The Presidency Bank-notes were given some preferential treatment and it was only in 1854 that the practice of paying small notes by the General Treasury in satisfaction of the claims of the public was recommended by the Government of India.[24]

BANKING POLICY.

Nextly, in matters of banking policy, if at all there was any policy, the East India Company strove to follow closely the traditional outlines chalked out already by the banking institutions

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(23) *See* the Asiatic Journal—May, 1837—p. 27 where the letter is quoted in full. Mr. Gordon, the Secretary suggested the depositing of full cover as security if only the notes were to be received by the Government Treasuries as equivalent to cash. The Imperial Government Records also contain a reference to this endeavour.

(24) *See* the Financial General Letter of the Government of India to the Court of Directors—1854.

of England. The East India Company always reverentially copied the general trend of the events in the English Banking Circles. When the English country banks were given the privilege to issue notes the Indian Banks were permitted to do likewise. It must be borne in mind that the knowledge that this note-issuing was not necessary for conducting banking business did not dawn on the minds of the English people until it was demonstrated by Mr. Joplin in 1826. The English Joint-Stock Banks started after that year did not care to have the note-issue privilege. Even the Indian Banks started after 1833 did not covet this privilege much. Not one of the private joint-stock banks of the N.W. Provinces cared to issue notes for any length of time. Such was the state of circumstances when Mr. Allen despatched his Memorandum on the Joint-Stock Banks of the N.W. Provinces to the Government of India in 1846. Even though the commercial Banks of England gave up this privilege of note-issuing the theorists still considered note-issuing as a chief distinctive feature of the Banks. Daniel Webster who considers note-issuing as the *sine qua non* of banking business wrote in 1839 as follows. "What is that then," he asked, "without which any institution is not a Bank and with which it is a bank? It is the power to issue notes with a view to its circulation as money."[25]

(25) *See* his Works VI—p. 127.

Chiefly as a result of the understanding that during the crisis of 1836 to 1839 the English Banks overissued notes restrictive legislation was enacted in 1844 by Sir Robert Peele. Soon after the passing of this Bank Charter Act in 1844 we notice that the Court of Directors of the East India Company at the instance of the Bombay Merchants sought to restrict by legislative enactment the right to issue notes in India.(26) The maximum amount of notes that the Presidency Bank of Bengal could issue was fixed in the Charter of 1839.(27) This maximum limitation was imposed in preference to the existing capital restriction of the Charter of 1823. Since the year 1844 the East India Company also strove to maintain general control over the banking institutions and in 1846 they sent for detailed information concerning the character and volume of the banking operations of the private institutions conducting banking business in this country. Nothing tangible resulted out of this earliest attempt to enact banking legislation. It was laid down in 1852 that the Company's servants ought not to take active part in managing the private banks. This evidently was a matter of mere self-protection—one of pure self-interest rather than any legitimate desire on its part to protect the depositors' interests. Beyond this infructuous piece of legislation nothing solid

(26) *See* the Financial General Letter from the Court of Directors to the Government of India—1846—No. 10 Letter on Private Banking in India.

(27) *See* the Article 31 Act No. VI of 1839—The Charter of the Bank of Bengal granted in 1839.

was achieved in this direction.[28] Certainly, it could have prevented the demoralisation of the banking executives which we clearly notice as one of the chief features of the banking system in Bombay and the N.W. Provinces during 1850 to 1860. Unless the details of the banking operations are controlled the bank executive remains unfettered in actual practice. Banking legislation to be effective must concern itself with the capital, reserve fund, cash reserve, loans, discounts, note-issue and other operations of the Banks.

Even in the matter of protective legislation so far as banking operations were concerned it was England that always took the lead and as soon as the English Bankers conducting business in India pointed out the desirability of similar protection to them the task of enacting a similar legislative measure with suitable adaptations for this country was usually accomplished as a result of their suggestions. In 1856 the Calcutta Bankers petitioned to the Indian Legislative Council to protect the bankers from the consequences of paying cheques having forged endorsements similar to the Act in force in England, *viz.*, 16 and 17 Victoria Ch-59, Sec. 19. Needless to say it was granted.[29] This march

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(28) *See* Appendix II for the different Acts and Notifications relating to the Banks.

(29) But there is still a vast difference in the matter of protection afforded to the Indian banker in this matter. *See* 85 of the N. I. Act protects the Banker in case of the forged endorsement of the payee alone and not that of a subsequent endorse. *See* Chalmer's Negotiable Instrument Act in British India by A. Eggar—Fourth Edition—p. 250.

hand in hand of Indian and English banking legislation would, I hope, be not forgotten and no time should be lost to amend the Indian Companies Act on the model of the recent English Companies Amendment Act of 1929.

Demoralisation of Bank Executives.

Nextly, the Bank officers at the helm of the Executive during this period were never conducting sound banking business. The Agency Houses of Calcutta were naturally carried away by their extra-banking activities and came to ruin. But neither were the Union Bank and the First Bank of Bombay and the Bank of Benares conducted on conservative lines of banking business. Even the Bank of Bengal was unwillingly forced to break the rules of its Charter on different occasions. The Government Bank of Madras was not conducted on sound lines during the early years of its career. The Presidency Banks could become knave-proof or fool-proof by virtue of the stringent regulations incorporated in their charters. Other Banks suffered in proportion to their shades of knavishness or foolishness of their bank executives. While other writers on banking have quoted profusely the instances of banking mismanagement in Calcutta and the Joint-Stock Banks of the N. W. Provinces, instances of banking mismanagement on the part of the Bombay Banks have not been alluded to by any of the writers on Indian Banking.

During the last period of our study Banking in Bombay presents a unique example of a country where money was seeking good investment in vast quantities and failing to find them soon came to waste in unwise and insane speculation. "It is not John Bull alone who cannot tolerate a two per cent. bank rate." Human nature is everywhere the same in almost all the commercial centres. As many as 131 banks came into existence in the cotton boom period and in spite of the warning of the Press the speculative mania could not be checked. The conduct of banking operations was necessarily responsible for this state of things. They facilitated the way for disaster. A contemporary writer of this period says "to understand what the conduct of the banks has been it is necessary to go much further back than 1864-1865 and even than the outbreak of the Civil War itself. The truth is that the mania of 1864-1866 supervened upon a community in which the seeds of ruin were already sown broadcast by the demoralisation of the personnel of its banking institutions. From the foundation of the Mercantile Bank of India in 1852 down to 1866 there has hardly been a bank manager who has not had interested relations with one or other of the brokers. Such relations could not but be dangerous. In other words the command of nearly all banks has been in the hands of men engaged in speculative transactions of the most formidable kind and in secret

partnership with the brokers. It cannot be too distinctly impressed upon the public mind that the recent share mania was possible only because an utterly demoralised executive had the command of all the banking resources in the place and with the vast resources behind them were in all but open partnership with the brokers as leaders of or participators in the great gambling operations of the time. The Back Bay scheme is said to have been the cause of the mania but this is incorrect. It was the demoralisation of the Bank executive at the time the scheme was launched upon the market that ruined us."[30]

NOT MUCH INFLOW OF BANKING CAPITAL.

Another factor which has been much exaggerated is the migration of British Capital during the major portion of this period. As a matter of fact until we reach the sixties of the last century there was not very perceptible migration of British capital into the country. It was not only finance or banking capital that failed to make its appearance on a large scale but the migration of British industrial capital on a large scale did not commence as yet. It is undoubtedly true that European commercial enterprise and skill were playing an important part already and several new exports have been sent out of the country mainly as a result of their[31]

(30) *See* S. M. Edwards—The Rise of Bombay—p. 276.

(31) It was an instance of Mercantile Imperialism and the Merchants of the East India Company invested their money in ships and in the goods which they sent out there in exchange for the tropical product. There was no direct investment of capital from England in the plantation colonies etc. in India as was the case in America at about that time. *See* M. Phillips Price.—"The Economic Problems of Europe," p. 29--*et seq.*

endeavour to promote the growth of the foreign trade of the country. Besides silk and indigo which were introduced through European skill and capital the following articles were also exported out of the country, *viz.*, shellac, linseed, safflower, castor oil, sal ammonia, coal, hides and skins, coffee and tea, salt-petre, salt, timber and calico cloth. Commercial and financial capitalism were the first manifestations of British capitalism displayed in this country during this period. Industrial capitalism developed only in a few instances. But capitalistic concentration has not had any beginnings of its own on any large scale during the period of our study.

The Genesis of British Capital.

It is well-known that England began to accumulate capital early in the latter half of the eighteenth century. The West Indies Sugar Trade, the exploitation of the native populations, and the traffic in African slaves were the chief sources from which adventitious accumulations of wealth could be made.(32) Concurrently with this process there was at that time a redistribution of indigenous wealth in England so that the "nabob" contractors and the opulent classes had to deposit their savings in the banks who only lent them to producers and shippers. England was comparatively free from political revolutions which swept over the Continent

(32) *See* Wember Sombert—"Der Bourgeois" Leipzig 1913—translated into English by M. Epstain under the title of "Quintessence of Capitalism"—1915, Ch. XIII.

at this time. While a new economic society was in the process of creation in England the other European countries torn by political dissensions had to leave their carrying trade into the hands of the merchantmen of England. To escape Napoleon's clutches the Continental financiers migrated to London. Amsterdam which was hitherto the financial centre of Europe was soon reduced to a secondary status.

The financial reconstruction of Europe after the Napoleonic war was the sole aim of the British capitalists at that time and roughly about £50 millions were invested during 1815 to 1830 in the securities of the most stable European Governments. About £20 millions were invested in Latin America and £5 or 6 millions had very quickly found their way for building canals and harbours in the United States of America.(33) This migration of capital meant employment for British industry and enterprise. From 1840-1857 the current of British capital was in the direction of Europe and America. The British entrepreneurs turned their energies to Belgium, France and America. The railway mania found employment for the British capital that took a leading part in undertaking the first railway construction in France, Belgium, Italy, and Austria.(34)

(33) *See* L. H. Jenks—"The Migration of British Capital", p. 64.

See also the Statistical Illustrations of the British Empire—London Statistical Society—p. 112.

(34) Dr. Bowley estimates in England's Foreign Trade in the Nineteenth Century that by 1854 about £550 mil. of British capital were invested abroad partly in Government stocks and railways and partly in railwey material, manufactured goods supplied on credit, wages as engineers and workmen engaged in contractor's works abroad.

But by 1857 the foreign centres developed the capital resources of their own and a regular concession-hunting began on the Continent of Europe with the result that the British capitalists had not only to perfect their organisation of the capital market and enterprise and direct the movement of capital away from Western Europe to British possessions in India. The "Colonial Reformers" guided by Edward Wakefield were preaching the doctrine of oversupply of capital in England during 1830 to 1850. Tooke also refers to the fall in money rates in England as leading to more productive investments abroad. Investments of British capital in the British colonies were suggested as an alternative remedy to the plethora of capital and lowered interest rates. Banks often referred to as the " Early Empire Banks" were established in West Indies, Australia and North America. The risks of Overseas Banking were mitigated largely by the device of a royal charter.

So far as India was concerned barring a few sporadic undertakings which meant the outflow of little capital nothing was done.[35] The original investment of British Capital in India was very small. The trade of the East India Company in the 18th century was carried on wih Dutch capital borrowed at a low rate of interest which, however,

(35) Up till 1857 the only British Capital in India took the form of investment in consumption goods for export and import and in lands and estates with houses stores and warehouses. By 1872 about £90 mil. of British capital had gone into India. *See* M. Phillip Price—"The Economic Problems of Europe"—p. 41.

secured excellent rate of dividends to the share-holders.

Reasons for the Absence of the Individual English Capitalists during this period.

The first wars of the East India Company paid for themselves. The subsequent wars were financed by rupee loans at Calcutta and subscribed to by the Civil and Military servants of the East India Company who had no other safe investments for their accumulated sums. When the Agency Houses were started they were entrusted with the savings of these servants of the East India Company. Mr. David Hill while giving evidence before the Parliamentary Committee on 30th March, 1832 pointed out that the capital employed in India was generated in India alone. Mr. W. B. Bayley another witness before the same Committee was of a similar opinion. He also stated that "no new capital would be forthcoming from England even if the European settlers were to be freely permitted into the country." Captain T. Macon stated before the same Committee that "capital was acquired in India and remitted to England."(36) It is not difficult to assign reasons for the British capitalists not heeding their advice as they were mostly afraid of uncertain land tenures(37) and the distrustful political atmosphere of the

(36) *See* Qns.—377, 919, 920, 1435 and 1436—Parliamentary Committee—House of Commons—March and April, 1832.

(37) Until an Act was passed in 1837 authorising any subject of His Majesty to acquire and hold property in land in the Company's territories the European capitalists did not settle in India and possess land on any important scale.

times. Had the East India Company granted the British capitalists a privileged status and a penal process for the enforcement of contracts they might have had selected India as a favourite field for investment. But the Court of Directors like all other contemporary Governments of that time were very closely wedded to the doctrine of *laissez faire*. They preferred the free play of natural laws instead of marring the economic processes by the meddlesome interference of the Government. So the East India Company contented itself by making its specialists write elaborate minutes on the cultivation of tea, cotton, tobacco, road building, railways, and steam communications.[38] It is often stated that the attempts made to develop manufacturing industries were never commensurate with the colossal opportunities available in the country.[39] The feeble and half-hearted attempts to realise their ideas lend colour to the above statement. Whatever might have been the reason the Company really did nothing to promote the industrial bent and nature of the people. But for the strong interests of the influential people that made the Hon'ble the East India Company take active steps no efforts would have been made to promote British enterprise in the direction of even British Railway guarantee and construction

(38) These can be seen in the Public Proceedings of the Fort William—Imperial Government Records.

(39) *See* the Memorandum presented by the Court of Directors to the Secretary of the India Board on 5th September, 1828—Steps taken for importing cotton.

in India. Industrialised agriculture as in indigo, opium, jute, cotton and tea existed to a certain extent under the guidance of the European capitalists. Coal mining also received great impetus as soon as the railways began to develop. Ship-building, the leather industry and coach-making were some of the important industries attracting the attention of the English capitalists. Insurance business was slowly developed and although many organised insurance companies did not exist there was a significant development of them during this period. The broad fact, however, remains that in the early days of the monopoly of trade the Covenanted servants of the East India Company very jealously guarded the privilege and this jealousy of the interlopers shown by the Company's servants has tended to scare away the independent capitalist.

CHAPTER III.

INTERESTING SIDELIGHTS ON THE OPERATIONS OF THE BANKS.

The absence of correct and accurate original information about bank note-issue.—No definite understanding.—The plurality of Issues.—The growth of the note-issue.—Tabular statement of the note-issue.—The denomination of the note-issue.—The Cover of the note-issue.—The Form of the note-issue.—Forgery of the Bank notes.—The *Modus operandi* of the forger.—Restricted growth of the note-issue.—The Attitude of the Government.—Some minor reasons.—Silver lining to the cloud.—No abuse of commercial credit.—Was there no infringement of the Charter?—Bank Issue *versus* Government Issue.—Common failings of the Indian and European paper currencies of the time.—Bank Deposits.—The Main source of the Bank profits.—Bank Post-Bills.—Lotteries.—Reserve Fund.—Investments. Character of loans. Cash Credits.—Discounts.—Other operations.—Non-paying assets.—Deficiency in the cash Reserve—How Tided Over?

THE ABSENCE OF CORRECT AND ORIGINAL INFORMATION.

There is indeed a great demand for accurate and correct information about the note-issues and the other operations of these early banks. It is unwise

to safely rely for this information upon recent books which have devoted great interest to this subject. In a recent book dealing with Paper Currency in India published in 1927 we find the following statements regarding the details of bank-issues. "The Union Bank which arose out of the ruins of a number of trading or agency firms in 1829 had a respectable circulation for some years, starting with Rs. 3,63,020 in 1830 it reached its maximum issue in 1837 when the circulation stood at Rs. 7,05,175. Then it declined." (1) The second statement runs as folows. Another Bank not mentioned in his (Cooke's book) the Bank of Western India (die Bank Des Westlichenstinden) founded in 1842 also seems to have a note-issue. But no details of its circulation are available. Perhaps this was the same bank as the Nordwest Bank von Indien which Huebner mentions but gives no details of its issues. Huebner also mentions two other banks, *viz.*, the Oriental Bank Corporation and the Agra and United Service Bank of Agra as having a note circulation. The amount of the note circulation of the former was approximately Rs. 5,18,910 in 1851, of the latter approximately Rs. 1,000,000 in 1853.

(1) *See* B. B. Das Gupta—Paper Currency in India—p. 22 and 27—Similarly on p. 27 he says "that in 1853 the Court of Directors were of opinion that it would not be expedient to grant such powers of issue either to the Oriental Bank, the Bank of Asia or the Bank of India, Australia and China." This statement perhaps is a quotation from a Parliamentary Paper. But the reference to the Bank of Asia is wrong. The Bank of Asia was floated by R. M. Martin in 1841 and did not start actual business as it failed to secure a charter. The reference here is to the Chartered Bank of Asia started in 1852.

Before referring to the second writer it is necessary to advise the readers to receive the above information with caution. In the interests of accuracy it must be pointed out that the first statement referred to above is not correct and as there is no source of information mentioned on which this statement has been based, it might be a hurried reproduction of the figures mentioned by C. N. Cooke in his Banking in India. But even according to Cooke the maximum was reached in 1840 and stood about Rs. 748529. Coming to the second statement there are unfortunately many terminological inaccuracies. Firstly, it must be a very hurried reading of Cooke which must have made the writer corroborate the remark that the "bank was not mentioned in the Book." On page 141 of the Book the name of the above bank was distinctly mentioned. Secondly, it is erroneous to consider the Bank of Western India as the Nordwest Bank von Indien mentioned by Huebner. The latter writer was evidently referring to the Joint-Stock Bank of the N. W. Province entitled the North-West Bank of India. Thirdly, Cooke himself mentoins the fact that the Agra and the United Service Bank issued notes for a while and as the Government refused to encourage the note-issue it was given up. A comparative study of both sources of information would have enabled the author to avoid these errors. Dependence on primary instead of secondary sources would have saved him from making these unhappy guesses or faulty assertions.

Passing on to the second writer who comments on the advantages conferred by the Early European Banks the same lack of detailed information on the bank-note-issues as well as their other operations is to be noticed. Both the writers make use of the hackneyed quotations about the early note-issues and although some specimens of the other bank-notes are easily available only the note of the Bengal Bank and the note of the General Bank of India alone are quoted. The second writer could have made use of the specimens of the note of the Hindostan Bank exhibited in the Victoria Memorial Hall of Calcutta. There are altogether ten real cancelled notes, two are of the Hindostan Bank and the rest are those of the Bank of Bengal exhibited by the Curator of the V. M. Hall.(2) Even the change in the form of the notes of the Bank of Bengal can be seen by a close comparison of the 1857 form with that of the earlier form. Now that a Central Bank of Issue is about to be created in this country it is wise to set forth the various aspects of the early bank-notes. A clear understanding of their essential features would point out which way progress lies in Indian Currency and Banking matters.

NO DEFINITE UNDERSTANDING.

The modern legal understanding of the bank-note is that it is an evidence of debt due from a

(2) The Indian Institute of Bankers which has been started quite recently should make it a point to collect these old banking documents—Bank-notes, post-bills, hundies, etc.

banker and mere delivery of this note assigns this right in that person to any other just like payment by cheques. It is, however, transferable without any endorsement. Such a clear-cut conception did not exist during this period. Bank post-bills, promissory notes and treasury notes of the Government were also included under this category.(3) It can be seen that the "Promissory notes of the Government were only obligations to pay interest per diem which varied considerably from time to time." The Bank of Bengal was created with the express object of retiring these treasury bills and it was later on settled to pay notes in speice on demand.(4) Even so late as in 1831 the people considered these treasury obligations as notes. The following statement from the Bengal Chronicle quoted in the Asiatic Journal clearly proves this fact. The Government notified that Treasury bills which were hitherto issued for nine millions bearing interest at five per cent. were no longer to be issued. The Bengal Chronicle relates this fact and rejoices over the

(3) *See* James Brunyate—An Account of the Presidency Banks—p. 55. *See* also Mculloch-Dictionary of Commerce-—Article on Calcutta—*See* also the Calcutta Review Article on Indian Finance based on the H. of Commons Report, 1853—The defects of the Promissory notes and the Treasury notes which restricted thier circulation as paper currency are carefully brought out in this article.

(4) Symes Scutt says"At the first inaugural meeting it was resolved at the suggestion of Director Tucker to gradually withdraw treasury bills from circulation and replace them by bank-notes. It was also resolved to pay all bank-notes of less than the denomination of Rs. 1000 in specie and that the signature of one director instead of three would suffice. From 11th February, 1807 bank-notes of any description were paid in specie on demand. "*See* also H. St. George Tucker—*Papers relating to the establishment of the first public Bank, Calcutta,*"

situation "for money which was formerly freely invested in these notes which were nothing more than bank-notes having five per cent. rate of interest largely payable at sight for they were received as cash in all Government payments and in all transactions in the Calcutta Bazar would now be available to satisfy the commercial needs of the people." Even in the balance sheets of the Bank of Bengal published in 1856 the bank-notes were added to the bank post-bills and published in a single item.(5)

Plurality of Issues.

Though all the earlier European Banks had the privilege of note-issue their actual note circulation might not have amounted to much. Almost all the banks started prior to 1860 enjoyed the privilege of note-issue. The Bank of Hindostan, the Bengal Bank, the General Bank of India, the Carnatic Bank, the British Bank, the Asiatic Bank, the Bank of Bengal, the Union Bank, the Commercial Bank, the Calcutta Bank, the Commercial Bank of India, the Mirzapore Bank, the Bank of Western India, the Oriental Bank, and the Presidency Banks were allowed this privilege to issue notes. Some of the exchange Banks proposed to be started in London or actually started in London after 1840 coveted this privilege but the Court of Directors always

(5) Any number of balance sheets of the Bank of Bengal can be reproduced but in no instance have these separate figures been given out. Bank notes and bank post-bills were always lumped up together and the combined figure alone was published. Brunyate. however, gives figures concerning the assets and liabilities of the Bank of Bengal in 1820. *See* his "Account of the Presidency Banks", p. 5.

considered it unwise to freely premit them to issue notes in competition with the Presidency Banks which were bound down by regulations framed in their charters of incorporation. Secondly, it considered it unwise to allow private banks directly concerned with commercial speculation to issue notes in competition with the Presidency Banks and as they had no power of control over the note-issue of private banks in those days of free banking in India they thought it would be impossible to check them if they were to push these issues without a sufficient cash reserve set aside for their prompt redemption. It was on this score that the 1836 proposal to start a "big bank" by the European merchants of London was set aside. Similarly the Bank of Asia was not granted this right of issuing notes along with its exclusive right to conduct exchange transactions on a broad scale, for exchange then was considered more as a speculative commercial activity than as legitimate banking business.[6] The Oriental Bank was given the power to issue notes in India also but its note-issue was always limited.

THE GROWTH OF THE ISSUE.

Although the earlier banks did issue notes still several of them could not issue them to any great extent for in the absence of proper encashment facilities they could have only limited circulation

(6) *See* the very clear and able minute of H. T. Prinsep—dated 7th April, 1841—Correspondence relating to the projected Bank of Asia. Parliamentary Paper printed on *7th April, 1843.*

at the place of issue and in the immediate neighbourhood. The Banks of the Agency Houses fared better in this respect than the pure private banks of this period. During the period of 1833 to 1860 the notes of the Presidency Banks began to acquire a virtual monopoly of the field and though their total authorised note-issue amounted to £5,000,000 against which one-fourth had to be held in specie their maximum note-issue did not reach this figure. The lowest amount to which the note-issue shrank during the troublous days of the Sepoy Mutiny in 1857 was about £2,000,000. The lowest issue of the Bank of Bengal was £1,030,000. But the actual issues of the Presidency Banks at the time of the organisation of the Paper Currency scheme was as follows:

The Bank of Bengal ...	£ 1,964,000
The Bank of Bombay ...	... £ 1,087,000
The Bank of Madras ...	... £ 266,000
Total	... £ 3,317,000

The Presidency Banks were virtually the "sole banks of issue" as Samuel Laing terms them and as a result of fair play compensation was granted to them on the score that the deprivation of this note-issue was "morally unjust and practically inexpedient."(7)

So far as the note-issues of the different banks were concerned the following table shows their maximum and average note-issues.

(7) *See* Samuel Laing's minute on the Government Paper Currency Bill.

A TABULAR STATEMENT OF THE NOTE-ISSUE OF THE BANKS OF THIS PERIOD.

Name of the Bank.	Period of its note-issuing operations.	Average amount of note-issue (Rs.)	Maximum note-issue Lakhs of Rs.
The Bank of Bengal (8)	1806-1862	176 (last year of issue)	279 (9)
The Bank of Bombay (10)	1840-1862	81 during 1857, 1858 and 1859.	128
The Bank of Madras	1843-1862	15 to 16	30
The Union Bank	1829-1848	4 to 5	7 lakhs
The Commercial Bank of India	1845-	Details not known	
The Commercial Bank (Managed by Mackintosh & Co.)	1819-1828	16	Not known
The Calcutta Bank (Ushered in by Messrs. Palmer & Co.)	1824-1829	20	Not known
The Bank of Hindostan	1770-1831	2 to 3 20 to 25	20 to 30 40 to 50 (11)
The Bengal Bank	? -1791	Eight lakhs at the time of failure.	
The General Bank of India	1786-1791	Average Circulation 12 lakhs. Details not known to anybody.	
The Oriental Bank	1846	One lakh (Bombay)	

(8) *See* Appendix III for a detailed balance-sheet of the Bank of Bengal and reasons for changes in the Bank-note of the Bank of Bengal in 1836.

(9) This figure is mentioned by Symes Scutt—It differs from the one given by Brunyate, "An Account of Presidency Banks (p. 60) or Cooke in his Banking in India—p. 97.

(10) *See* Appendix IV of this monograph for a specimen of the Bank-Note of the Bank of Bombay.

(11) The two different estimates are those of Cooke and Holt Mackenzie. The higher figure is given by Holt Mackenzie. *See* his evidence before the Select Committee of H. of Commons, March, 1832.—Answer to Qn. 533.

THE DENOMINATIONS OF THE NOTE-ISSUE.

The denominations of notes of the Bank of Bengal were rupees 10, 15, ·16, 20, 25, 50, 100, 250, 500, 1,000, 10,000 and 20,000.[12] The other Presidency Banks must have issued notes of similar denominations. So far as the non-Presidency Banks were considered the minimum denomination was Rs. 4 [13] and the Union Bank issued notes of the minimum denomination of Rs. 8 and the maximum denomination was fixed at Rs. 1,000. It seems peculiar why the Presidency Banks or the non-Presidency Banks did not take into consideration the character of the pecuniary transactions of the people and suited the denomination of the notes to the minute character of the extreme number of these transactions. They seem to have entirely ignored the historical parallel furnished by the contemporary bank-notes of the foreign countries of this period. A reference to the practice of the contemporary foreign banks would have guided them in the right path. To suit the transactions of the fishermen of the Island of Newfoundland

(12) This denomination is not mentioned by other writers. But Holt Mackenzie mentions this as the maximum denomination of the notes. He also mentions that the large size notes from Rs. 100 upwards were largely in circulation. But he contradicts the above statement as regards the maximum size and says that the note of Rs. 10,000 is the maximum one. *See* his answers to Qns. 514 and 575 before the Select Committee of the House of Commons—1832.

(13) A note of the Bank of Hindostan for Rs. 4 (Siccas) is carefully exhibited in the V. M. Hall. It was first issued to Connylall Burell or bearer on 28th November, 1823, No. 3985. There is another note No. 2530 for a sum of Sicca Rs. 20. The remaining eight notes are those of the Bank of Bengal.

notes of one Dollar were issued as a safe and convenient circulation. In the Island of Mauritius notes equal to Rs. 5 circulated for years under Lord Grey's principle without abuse and were extremely useful to the planters and the public. The Bank of Ceylon issued shillings 5 notes for several years and when the minimum denomination was raised to 10*s.* at which it stood in 1859[14] it was regretted both by the planters and by the public. Throughout Prussia and other German States notes of the denomination of one thaler or 3*s.* were greatly used in circulation. In all these cases the security behind the note was not of such a strict character as was the case with the Presidency Banks' "notes."[15] Even in the United States of America notes for six cents were often issued during 1812 to 1816. This fact was recognised by Wilson and he insisted on the denomination of Rs. 5 as the minimum denomination note to be issued by the Government.[16] But unfortunately the framers of the 1861 Act did not realise this advantage and refused to consider the issue of the five rupee note as a desirable step.

(14) *See* the Memorandum of the Manager of the Oriental Bank before the Mansfield Commission.

(15) *See* the Right Hon'ble James Wilson's Minute—respecting Paper Currency dated 25th December, 1859.

(16) While introducing the Paper Currency Bill in 1860 the Finance Member said "If we bear in mind that the highest denomination of coin in circulation is one of only a single rupee or two shillings while in England the common coin is one of 20 shillings, it would appear that we should be justified in adopting the old practice in Ceylon and the present practice in many countries and adopt notes of a denomination as low as two or two and half rupees."

The Cover of the Issue.

So far as the earlier European Banks were concerned there was no legislative interference in the matter of their note-issue. Neither their notes nor their deposits were hedged about with restrictions and red tape. The policy of Laissez Faire was pursued in this direction. Even in the early years of the Bank of Bengal (*i.e.*) from 1806 to 1823 the Bank-notes were differentiated from other liabilities and the law stated that the total liabilities of the Bank could not be greater than the total paid-up Capital of the Bank and a cash reserve to the extent of one-third of the total liabilities had to be kept by it. In 1823 this proportion was still further lowered to one-fourth but even then the note-issue was not differentiated from the other liabilities. Symes Scutt mentions the suggestions of Hon'ble the Court of Directors made in 1829 to restrict the note circulation to one crore of rupees. As these suggestions were stoutly opposed by the Bank directors nothing in the direction of regulating the note-issue was passed at that time. The Charter of 1839 did not materially differ from the previous Charter. So far as the regulation of note-issue was concerned the maximum circulation of the note-issue was fixed at two crores and no specific cash reserve was fixed against the note-issue. Articles 25, 26 and 31 of the 1839 Charter refer to these regulations concerning the note-issue and these were re-imposed in the case of the Banks of Bombay and

Madras; the only difference being that the Bank of Madras, on account of its limited capital was allowed to circulate notes only to one crore of rupees.

These regulations were not imposed on the private Banks of issue. It could not but be otherwise for those were the days when banking was considered only in the sense of note-issuing. So far as the contemporary Banks were considered we do not meet with the insistence of maintaining a metallic reserve for the ultimate payment of the notes. In the State of New York and other States of the United States of America notes were issued by all the Banks and the law insisted on the deposit of public stock of the State or Union to the full amount of note-issue which was held as specific security for the ultimate payment of these notes. In France the Bank of France was allowed to issue notes. Neither was security taken nor was there the insistence of the specie reserve for the payment of the notes. All that was insisted upon was the prompt convertibility of the notes. The English and the Scotch Banks of this period were given full privilege to issue notes and it was only in 1844 and 1845 that a fixed limit was placed on their note-issues. But some of the Indian Banks, however, consciously imposed such regulations in the matter of their note-issues. The Oriental Bank proposed to maintain one-third cash reserve limit against the total value of notes issued by its Head Office and all its Indian and non-Indian branches. This proposal amounted in

fact to maintain a separate reserve for the notes. It must, however, be realised that this Bank secured this right to have extended note-issue as a result of its amalgamation with the Bank of Ceylon. It issued notes in Bombay, China and Ceylon. So far as the Union Bank was considered it was proposed to restrict the circulation of notes to one-fourth of the paid-up capital of the bank. The main reason why the other bank-notes were unregulated like those of the Presidency Banks was that they did not enjoy any special privileges.(17) The notes of the Presidency Banks were received at the Government Treasuries in the different provinces in payment of revenue but as this right was not granted to the non-Presidency Banks it was thought that they would gradually disappear in course of time leaving the field open to the Presidency Banks. This forecast of events was completely realised by the year 1860 and we find Samuel Laing terms the Presidency Banks as the "sole banks of issue."

FORM OF THE NOTE-ISSUE.

Like the Goldsmith's(18) notes of England and the earliest English Bank-notes the notes of the Early European Banks were made out both to order and bearer. Notes bearing one Director's

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(17) *See* F. C. Harrison—"Economic Journal"—1891—Vol. I—p. 726.

(18) A specimen of the Goldsmith's note is appended below.

Nov. 28th 1684,

I promise to pay unto the Right Hon'ble Ye Lord North and Grey or bearer ninety pounds at demand—For Mr. Francis Child and myself

J. Rogers.

See R. D. Richard's—"Quarterly Journal of Economics", Vol. XI—p. 280.

signature or that of the cashier acting on behalf of the Directors and Proprietors of the Bank and countersigned by one Director were generally put into circulation by the Bank of Bengal and the General Bank of India respectively. So far as the notes of the Bank of Bengal were concerned all the notes exhibited in the V.M. Hall are bearer notes and the name of the first holder is not mentioned as in the case of the other bank-notes. A new form of the Bank-note was adopted in 1857 and from April, 1858 the notes were signed only by the Secretary, the Deputy Secretary and the Accountant and not by one Director as was the custom and practice up [19] to this period.

Forgery of the Bank-Notes.

It is clear that sufficient precaution was not taken in the matter of the note-issue for even the bank-notes of the Bank of Bengal were easily forged on several occasions and in spite of examplary punishments being meted out to the delinquents there was evidently no check to this dishonest practice.[20] The first mention of a forged note for Rs. 50 was in the year 1809. Symes Scutt records that " a forged note for Five Hundred Sicca Rupees was actually paid in cash on the ground that a refusal to pay would be attended with the most injurious effects to the circulation of the bank-notes. It

(19) *See* Symes Scutt—"The History of the Bank of Bengal"—*See* the notes exhibited in the Victoria Memorial Hall—Calcutta.

(20) One Ramcomul Singee was convicted by the Supreme Court and sentenced to seven years' imprisonment in 1839—*See* Cooke—p. 105.

was considered expedient to pay all other forgeries upon the Bank when presented by persons who have become fairly possessed of them." [21]

THE MODUS OPERANDI OF THE FORGER.

From the method of forging adopted by one culprit some glimpses into the manufacture of spurious bank-notes can be obtained. As the report goes the forger usually secured the silver or bank note paper from the bazar and cut it into proper shape. The paper was slightly rubbed with oil to render it more transparent. A slip of the prepared paper was laid over the face of the bank-note and being closely extended the characters of the note beneath were easily traced with a common pencil upon the blank paper. The sketch being removed the whole was carefully filled up with copper plate ink laid on the back of the forged note and these being exposed to the sun the superfluous oil was taken up by the lime which on being rubbed off left the note nearly complete. The signature of the Bank Director and the entering clerk were then added with pen and ink and the operation of forgery was thus complete. The whole process was so finely executed that even Bank officials could not have detected the bank-note as a forged one but for the unfortunate omission of the word "entered" and the addition of Mr. Tucker's signature instead of "Mr Cox's." [22]

(21) *See* General Public Letter to Bengal—3rd Sept., 1813—No. 2, Paras, 164, 165 and 166.

(22) *See* the Bengal Harkaru—March 18, 1824 quoted in the Asiatic Journal, July to December, 1824—Vol. XVIII—p. 425.

Another kind of forgery consisted in altering the genuine bank-note of a low denomination into one of a high denomination.[23] In 1824 a genuine ten rupee note was altered into Rs. 100 note by cutting out the former amount which was in German text and substituting the latter amount. They, then, in similar manner changed the Persian and Bengali characters and afterwards tore the note and put it together again by pasting pieces of paper on the back taking care that the piece in the back covered the amount they introduced in the note, the more easily to evade detection.

The forgeries continued in spite of heavy penalties and in 1840 the Bank of Bengal presented a gold watch to the Deputy Superintendent of Police, Mr. Mcmunu for rounding up several gangs of forgers of bank-notes.

Symes Scutt records that in 1856 "about 700 hundred rupees were paid for secret service which consisted in detecting forgeries."[24]

It was supposed that there were extensive forgeries of the Bank of Bombay notes during the years 1848 to 1851 and this led to the entire circulation being temporarily reduced and a run on the bank ensued.[25] It is on account of this reason that the circulation during 1843 and 1852 fell below

(23) *See* the Asiatic Annual Register—1808—p. 22. *See* also "John Bull" —a Calcutta newspaper—14th Oct., 1807.

(24) *See* G. P. Symes Scutt—"The History of the Bank of Bengal"—p. 51.

(25) *See* the chapter on the Early history of the Bank of Bombay,

the 1843 figure which stood at Rs. 6,350,000. The average during these years was only Rs. 3,500,000.

The forgeries in the case of the non-Presidency Banks were no less grave in nature.[26] The Bank of Hindostan had to instruct the general public of Calcutta as to the mode of distinguishing genuine from forged notes which warning was misconstrued and a regular run ensued and notes worth 18 lakhs had to be encashed in 1819. When Messrs. Palmer & Co. failed in the year 1829 there was another run on the Bank of Hindostan and about twenty lakhs of Rupees had to be paid in cash to satisfy the claims of the panic-stricken creditors. The notes of the General Bank of India were also forged. As a protection against this the Bank began issuing notes on paper containing water marks in them. It had to instruct the unwary public as to the right method of testing the genuineness of its new notes.[27] It is indeed curious why the Banks of this period did not treat this matter seriously and why effective measures were not taken to prevent the

(26) The forgeries were always of a grave character and the loss sustained by the ignorant people by these frauds and impositions was great. Henry St. George Tucker who realised this wrote strongly against the 1836 proposal to start a "big bank" on the ground that the issuing of paper money which the Bank contemplated was most injurious to the community.

See his paper written in 1836—"Memorials of India Government" edited by J. W. Kaye—p. 381 *et seq.*

(27) *See* the Calcutta Gazette—July 30th, 1789—"Notice is hereby given that all notes and bank post-bills and checks now issued by the General Bank of India have a water mark in the Paper containing the words the General Bank of India in the centre of the notes or checks which is easily discernible in holding the Paper up to the light. The holders of such notes not having the water mark are requested to send the same for payment to the Bank."

easy forgery and counterfeiting of the bank-notes.[28] The Bank of England notes were not forged so easily. Horsley Palmer, one of the Directors of the Bank of England says "the forgeries upon the branch bank-notes have been very few. There might have been probably forgeries of the Bank of England paper constantly in circulation but at present only to a limited extent."[29] Mr. Wilson was shrewd enough to realise this and he borrowed this knowledge from the Bank of England so as to make the Government paper currency difficult to be forged by the people.[30]

Restricted growth of the Note-Issue.

Facilities for redemption or the due encashment of notes in the interior did not exist to any extent. It is easy then to account for the poor homing power of the bank-notes in the interior of the country. Notes of the Bank of Bengal were convertible only at the Head Office alone and the people were often put to serious straits when they attempted to convert these notes in the inland cities and towns of the

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(28) The same was the case in the History of the Banking system of the United States of America. Up to 1861 bank-notes not only passed at varying rates of discount but were counterfeited to an extent that was almost appalling. There were roughly 7000 kinds and denominations of notes and fully 4000 spurious or altered varieties were reported. *See* A.P. Hepburn—"A History of Currency in the United States", 1924—p. 80.

(29) *See* his Evidence to Lord Althrop's Secret Committee of the House of Commons, 1832—quoted by M. J. Quin in his Trade of Banking in England—p. 201-208.

(30) *See* the Right Hon'ble Wilson's Minute on Paper Currency.

Lower Provinces.[31] When the Bank of Bengal proposed to open a branch at Allahabad in 1836 the difficulty of the encashment of notes of the Head Office had to be taken into account. It was decided by the Bank to issue notes at the branch payable therein and encashable at the Head Office only if funds would permit such a procedure. This plan clearly foreshadowed the later development of the circle system of the Government paper currency organisation. But the Government did not, however, consider the plan favourably and were of opinion that a change in the Charter would be necessary to permit such a procedure. Nothing particular in this direction was achieved.

Again, rivalry between the existing banks in Calcutta led to the non-holding of the rival's notes and the habit of re-issuing of these notes did not exist. The circulation of the notes of the Union Bank was limited by such a procedure on the part of the Bank of Bengal. Similar rivalry existed in Bombay between the Bank of Bombay and the Bank of Western India.[32] Such rivalry existed in

(31) *See* the Englishman, April 17th, 1837—"Of the One Crore twenty lakhs in circulation upwards of fifty lakhs were for sums of Rs. 1000 and upwards. Out of Calcutta and its immediate vicinity paper currency is little known and considered as an unsafe security on which to advance money even by regular bill brokers. A gentleman at Aligarh could not get a single shroff in the neighbouring town of Ceol to cash the notes of the Bank of Bengal to the amount of Rs. 350 though they were in daily communication with Calcutta. Another individual at Subathers was refused discount on any terms of a Bank of Bengal note of Rs. 100 by a shroff whose business in hundies extended to Calcutta. The same note was afterwards cashed at Meerut at a loss of Rs. Six, annas ten, pies six." Evidently the discount must have been varying with the distance from the Bank of Issue.

(32) *See* the Chapter on the Private Banks of Bombay.

the matter of the three European Banks in Madras prior to 1805.

The Bank of Bengal was forced to take protective measures. It is recorded that "in order to strangle the infant Hercules" it was decided in 1834 by the Bank of Bengal not to accept the notes of the Union Bank as cash. Although repeated overtures were made by the leading merchants of Calcutta [33] and the Union Bank itself [34] the Bank of Bengal remained firm in its attitude. [35] Consequently the Union Bank refused to re-issue the notes of the Bank of Bengal from 1840. [36] Though this spirit of rivalry existed we do not meet with such instances of bad blood between competing banks as had been witnessed in the Scottish banking circles. The Bank of Scotland used to present a large number of notes of the Royal Bank of Scotland and *vice versa* mainly in order to create embarassments.[37]

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(33) Symes Scutt says that in 1834 Feby. about "fifty nine merchants of the leading firms protested against this decision but the Bank remained firm."

(34) For a more detailed statement of the relations between the Bank of Bengal and the Union Bank—*See* the Asiatic Journal, May to August—1834.

(35) *See* the rules published by the Bank of Bengal in 1840—"The first rule was to the effect that its own notes were to be received and paid"—Quoted from Symes Scutt—The History of the Bank of Bengal.

(36) *See* the Asiatic Journal—Sept. to Dec., 1840.

(37) *See* the Memoirs of a Counting House by Sir William Forbes—Bart published in 1860—"Large numbers of notes of the rival banks were collected and presented for encashment at the counter of the competing rival bank. At such times the practice of the Edinburgh Banks was to sell out in pennies in payment of its notes to holders acting in *mala fide* to embarass the bank"—A copy of this Book exists in the Imperial Bank's Library (Branch—Calcutta).

THE ATTITUDE OF THE GOVERNMENT.

Two main reasons for the restricted circulation of the bank-notes, namely, the lack of facilities for the encashment of notes and the refusal of the rival banks to consider the bank-notes as cash have already been mentioned. Even if these obstacles had been removed there would still have been restricted circulation for the Government never pursued a strictly benevolent policy towards the quasi-state banks even. The Bank of Bengal had to deposit twenty lakhs of Sicca Rupees on 19th July, 1809, with the Treasury as security against the receipt of bank-notes at the public treasuries in the Lower Provinces. There was also a standing notification issued to the treasury never to permit a larger holding of bank-notes than Rupees 50 lakhs at any one time. The rest were to be returned to the Bank for proper encashment. [38] The Government never cashed these notes as a matter of right even in the Lower Provinces and only re-issued them when requested to do so by customers anxious to circulate these notes. Attempts were made by the earlier European Banks managed by the Agency Houses to obtain the legal tender privilege for the bank-note but this was never granted throughout this period of our study. They did not succeed

(38) In spite of this notification the Government treasuries had sometimes to hold nearly 75 lakhs of notes as in the year 1837. Holt Mackenzie says that the deposit was given up in 1828. It is only after that date that the Government pursued a benevolent policy and bank-notes were re-issued, says Holt Mackenzie, whenever requested to do so by customers. Symes Scutt says that this deposit was given up in 1823.

in convincing the Government of the utility of the privilege for extending their note-issues and this question was not re-opened at any time during the whole of this period of bank [39] note-issue. Almost all the private note-issuing banks strove to increase their note-issue and agreed to deposit equal value in Government securities in the hands of the Government, if only they could be received in the public treasuries as cash.[40] In spite of this step-motherly treatment the notes of the Bank of Bengal circulated in the interior up to "Benares a distance of 560 miles from Calcutta, no mean distance in those days when there was a total lack of the means of communications." So far as Upper India was concerned no notes of the Bank of Bengal could circulate. [41] This was undoubtedly the result of a separate currency existing in the N. W. Provinces. Great dissimilarity in currency restricted the circulation of the notes of the Bank of Bengal which were expressed in *Sicca* Rupees and these evidently were of little use in Upper India as the *Furrackabad* Rupees were the current coins. Till uniformity in currency was attained by the 1835 Act even the Presidency Banks must have been rendered helpless in this matter.

(39) *See* the Letter to Lord Cornwallis written by the Chiefs of the Agency Houses—Quoted by H. Sinha—Early European Banks.

(40) See the Asiatic Journal—Under the Secretary Mr. J. G. Gordon's management the Bank strove to secure this privilege—As it was not granted the note-issue was given up.

(41) *See* Major Hyde's Evidence before the Mansfield Commission—Reply to Qns. 61 to 68—"I do not remember ever having seen a note of the Bank of Bengal in Upper India."

Some Minor Reasons.

Fourthly, the mode of living of the people made it difficult for them to encirculate and preserve the paper currency. [42] The habits of the people and the material used in preparing these notes and the prejudice of the people against the notes must have restricted the free acceptance of the bank-notes. The custom of the people was to circulate sealed bags supposed to contain Rs. 1,000 each and it was so thoroughly established in Mirzapore that even Government paper currency could not become popular immediately.[43]

Nextly the uneducated people might have failed to understand the hieroglyphics on the notes. Their inveterate love for metallic currency must have impeded the growth of the note-issue. It is also possible that the non-Presidency Banks might have failed to inspire sufficient confidence among the people. As a result of this sad feature there might have been restricted note-circulation. Above all the

(42) Mr. Fullarton in his minute says "the prevailing poverty of the people and the large amount of the common articles of consumption and the quantity of labour which a Rupee commands are insuperable obstacles to the extensive diffusion of a circulating medium of notes of ten rupees and upwards. The dealings of the ryots, of the myriads of this vast agricultural population must continue to be in silver, copper and couries—the army must always be paid in specie, the great towns where alone notes can circulate are things scattered, few of them wealthy and their most important dealings adjusted at Calcutta." 1st Sept., 1836—on the East India Bank proposal.

(43) *See* the Evidence before the Mansfield Commission—Brunyate also refers to this practice and remarks that though a currency agency had been established for several years it failed to displace the six hundred bags still current in 1866. *See* his Account of the Presidency Banks—p. 59 foot-note.

bank-notes were not legal tender. Without this privilege bank paper could never afford to become "national paper currency."

Another minor reason for the restricted circulation was the hostile attitude of the shroffs. They were afraid of their own business and never freely converted them into cash. The shroffage on notes was a source of profit and although the shroffs of the interior had ample opportunity to remit them to Calcutta during the course of their remittance transactions they never freely cashed them. Again they never accepted the notes of any new bank unless their association decided on such a course of action.(44)

The holder of a hundi was decidedly in a better position than one possessing a bank-note. The matter of redemption in the case of a bank-note could not be had as a matter of right as against the Bank except at its Head Office. The holder of a hundi could encash it at the place mentioned as the acceptor shroff had to make provision for the honouring of the hundi by his paying agent at the place mentioned. It was this technical superiority of a hundi as against the larger bank-note that has to be noticed.

Silver Lining to the Cloud.

In spite of these obstacles there was a limited growth of the note-issue. This the Banks were able

(44) *See* the Meeting of the shroffs and the indigenous bankers of Calcutta. The opposition to the circulation of the Union Bank's notes was withdrawn—Feb. 12th, 1829—Quoted from the Asiatic Journal.

to accomplish because they could feel the pulse of the money market and issue notes so long as there were people willing to receive them. The Banks purchased bullion with bank-notes and sold it on credit to the Government. In the then peculiar circumstances of the country the Government connection with the Banks aided them. This must have been the sole reason for their circulation. Banks are ideal agencies of issue and it is these that can hope to make any headway against popular dislike for novelty. This must have been another reason why the bank-notes could circulate even to a limited extent. Another incident helped the bank-notes materially. The Bank-notes could command a slight premium of annas six to annas eight per cent. They were required for remittance purposes and when bullion remittance was difficult individuals had to buy bills from the shroffs or secure these bank-notes as a means of remittance. The great charges made by the shroffs forced the business firms to remit money sometimes under armed escort. Like bills on the mercantile houses the Bank-notes were at a premium in the interior and as these could be cashed at Calcutta they formed one of the available means of remittance in those times. They were consequently sought for eagerly as a safe means of remittance available at that time to remit money from the interior districts to the capital city. These facilities increased the note circulation but bank currency did not and could not become the principal

medium of payment nor even a useful auxiliary to metallic circulation. Bank credit was no more than a subsidiary medium of exchange in the Presidency Towns. They must have been practically viewed as a sort of commercial paper.

No Abuse of Commercial Credit.

Although bank-notes became gradually established by convention still there were no instances during this period when bank credit in the form of bank-notes was seriously abused.(45) It is indeed creditable to record that bank-notes never became divorced from metallic money.(46) It was undoubtedly true that in the interior where encashment facilities did not exist a slight discount of annas four to annas six per cent. was attached to the notes of the Bank of Bengal. This discount was chiefly due to the charges made by the shroffs in the bazaars for converting the notes into coin.(47) It must be

(45) Although the British residents started a Bank of discount in the Cape of Good Hope territory in South Africa in 1806 just at the time when the Bank of Calcutta was formed it soon began to overissue the (rix dollars) paper currency. The Bank was started under the auspices of the Treasury but it was not managed on sound lines. In spite of the reforms introduced by Lord C. H. Somerset in 1814 there was not much improvement. Till 1825 the impairment of public credit was unchecked and owing to excessive issues of paper money beyond the requirements of the people the value of the paper rix dollar fell to one-third of its nominal value. For more details of its history, *see* the Asiatic Register—1825 July, Dec., pp. 387 to 390.

(46) "It was only on one day during the Burmese War in 1824 that the notes of the Bank of Bengal could not be paid in cash"—*See* the Evidence before the Select Committee of the H. of Commons on East India Affairs. March 7th, 1831—p. 192.

(47) *See* Mr. Onslow's precis to the Mansfield Commission. It is unfair to say there is only one copy of this valuable report in the whole of India. A copy of it exists in the Imperial Library. For an accurate idea of the monetary conditions till 1867 the report and the evidence will be highly useful.

borne in mind, however, that such a discount was attached even to the Government paper currency during the early years of the note circulation.[48]

In the absence of a rallying point like the Central Bank any attempt to abuse bank credit would have become conspicuous. In the United States of America it was depreciated paper that circulated from 1791 till 1816 when the Second Bank of the United States of America was chartered in 1816.[49] There was a crisis in America which led to a premium on legal tender metallic money as the banks suspended specie payment. Money had to be bought simply as a commodity. Consequently it soon rose to a premium over bank credit.[50] Even in England the country banks which issued notes fared miserably. Greenfell says that in 1793 about 100 out of 400 of them suspended cash payment. In 1810 about the same number failed; many failed in 1812. In the years 1814, 1815 and 1816 about 360 went down and within six weeks in 1825 about seventy succumbed.[51] It reflects much credit on the management of these earlier

(48) *See* the Hon'ble Mr. Massey's Minute—on paper currency.

(49) In 1814 almost all banks with the exception of those in New England suspended payment. To remedy this crisis the Second Bank of the United States of America was started in 1816.

(50) In 1857 there were more than 5000 different kinds of note-issue circulating among the people. From this it can be easily gathered that the chaos must have been a profound one. *See* the Memorandum on the History of Financial-Crisis-Document 538 of 61st Congress. The U. S. A. 2nd series 1910—Quoted from the National Monetary Commission Report.

(51) *See* H. R. Greenfell—"Banking and Currency."

Indian Banks to record that there was no abuse of this kind of credit. It cannot, of course, be suggested that there were no takers of these bank-notes or else there might had been an over-issue. So late as in 1861 the note-issue was more important and was actually greater in volume than the deposits of the Presidency Banks. Even in other directions the earlier banks did not materially help to quicken the circulation of money as a counterpoise against the sluggish velocity of metallic currency. Any abuse of credit would have become reflected in the increase of the general price level of the country. But the most signal feature in the early half of the 19th Century was that prices have fallen. There were indeed other causes which were tending to produce this effect but this sluggish circulation of metallic currency amounted roughly to £100 or 150 ms. and the paucity of Bank or credit currency must indeed have been responsible for the same effect.

WAS THERE NO INFRINGEMENT OF THE CHARTER ?

Brunyate and other writers mention that only once was there the infringement of the Bank Charter so far as the Bank of Bengal was considered. In 1860 exactly one year prior to the starting of the Government paper currency the Bank of Bengal was permitted to issue greater number of notes than the statutory limit of two crores of rupees. This was due to the fact that the subscription to the Government five and half per cent. loan created

a great demand for the Bank-notes and as notes above the statutory limit could not be issued without fresh legislative sanction a request was made to the Government to permit the over-issue of notes up to 275 lakhs but as the excess notes were paid into the treasury and presented an advance to the bank it had to pay five per cent. interest on the daily balances of issue above the two crore[52] limit. Both Cooke and Brunyate say that two crores fifty lakhs were actually issued and this evidently must have been the maximum limit of its note-issue. Symes Scutt, however, differs from these authorities and says that "the maximum point touched was 279 lakhs of Rs." [53]

It is evident that there was no provision tending to secure the elasticity of note-issue on emergent occasions without previous legislative sanction. In spite of this valuable precedent it seems strange and inexplicable why the framers of the Government Paper Currency Act of 1861 made no provision for introducing this highly desirable element of elasticity in the note-issue. At any rate Germany seems to have profited by this example and the 1891 regulations of note-issue were closely modelled on the

(52) *See* the Extract from the Report dated 5th July, 1860 by the Director of the Bank of Bengal for the half year ending 30th June, 1860. 3rd para. Enclosure 6 to W. D. Cruickshank's letter dated 2nd Dec., 1899 to the Government of India. *See* C. N. Cooke—Banking in India—p. 97, *see also* Brunyate—"An Account of the Presidency Banks."

(53) *See* Symes Scutt—History of the Bank of Bengal—"The maximum limit was reached in 1860 and it touched 279 lakhs of rupees"—p. 57.

1860 measures adopted in India.[54] Mr. Goschen proposed to legalise similar measures in England based on the Indian experience just as it was carefully adopted to German conditions by the German Parliament in 1891. But his attempt proved a failure.

BANK-ISSUE *Versus* GOVERNMENT-ISSUE.

It has already been remarked that the Presidency Banks were deprived of their note-issue in 1861. The chief reason was the anxiety on the part of the Government to increase the total monetary circulation by extending a portion of the paper currency. It was of the opinion that "in the peculiar or special circumstances of India it was desirable that the Government should issue notes possessing legal tender quality." Both the Finance Members—Wilson and Laing were staunch supporters and believed in the banks and considered them better fitted to issue fiduciary paper than the Government. It is well-known that Sir C. Wood had the final voice in the formation of Government paper currency scheme. He had on the other hand no faith in the efficacy of the bank note-issue. It was not recognised by him that banks possess greater power to feel the pulse of the money market and have special means for strengthening the reserves and contracting their issues which the Government does not enjoy. So

(54) *See* the Letter of W. D. Cruickshank—Secretary of the Government of India, Finance and Commerce Department. It will be seen that the charge made for the excess issue of notes sanctioned in 1860 was the same as that adopted by the German Parliament in 1891 and the action taken by the Bank was entirely successful.

increase or decrease of the circulation of bank paper currency can be done by special means which are denied to the Government. Banks can extend the note-issue for they enter into direct dealings with the trading public and can induce their customers to take notes instead of silver by offering them more favourable rates. Safety as well as elasticity which cardinal features a paper currency should possess can be secured only if a bank issues it. The Government issue can easily become subjected to a profit and loss philosophy and in days of economic pressure the State would not fail to take advantage of this right of note-issue thus endangering the stability of prices. The danger is so grave that it is always an accepted doctrine that the paper currency should not be caught in the clutches of the general finances of the country and be used for filling up the gap between revenue and expenditure.

Though the ideal of convertibility of note-issue should not be lost sight of, every attempt has to be made to secure the seasonal elasticity of note-issue. Long period elasticity is no less essential and if these advantages of bank-note currency are not aimed at the realisation of the other minor advantages of paper currency is immaterial. It tantamounts to the grasping of the shadow instead of the real substance.

Common Failings.

Throughout the earlier period of our study there were a number of issuers and the absence of restriction on the note-issues was a note-worthy

feature alluded to already. These failings were common to European and Indian paper currency of this time. While the centralisation of note-issue was secured consciously as a result of the Bank Charter Act of 1844 events brought about similar circumstances in this country during the latter half of the period of our study.

Even in the Western countries the technique of bank-note currency was not successfully evolved till the beginning of the second half of the nineteenth century. The chaotic state of banking in the United States of America has already been referred to. As many as five financial panics occurred during the years 1815, 1833, 1839 and 1847. Suspension of cash payments and widespread failure of banks were the chief characteristics.[55] Circumstances were not much better in England. Repeated panics, crises and failures of banks at times coinciding with those of the U.S.A. were so common that no detailed reference need be made. Thus in both these economically advanced countries the art of modern banking was not properly understood and compared with these contemporaneous institutions the mistakes, follies and crimes of the Indian Bank managers of this period can be easily condoned.

BANK DEPOSITS.

Even the quasi-State Banks failed to attract large deposits. Up till the year when the Treasury

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(55) W. L. Thorp—Business Annals—p. 42.

balances were handed over to it in 1862 the amount of the deposits of the Bank of Bengal averaged over 85 lakhs of Rupees. Brunyate, however, gives us a rough balance-sheet which indicates the magnitude of the Bank's different operations in 1821.

LIABILITIES.	Rs.	ASSETS.	Rs.
Capital ..	.. 107 lakhs.	Discounts	.. 13 lakhs.
Reserve ..	.. 2 ,,	Loans ..	.. 151 ,,
Note Circulation	.. 172 ,,	Investments	.. 26 ,,
Government balance	.. ,,	Cash Balance	.. 215 ,,
Other deposits	.. 124 ,,		
Total	.. 405	Total	.. 405

One clear and undisputed fact that has to be realised is that the deposits never equalled the amount of their note-issue though it was larger than the paid-up capital of the Bank. From the evidence of Holt Mackenzie it is evident that the Bank of Bengal did not pay any interest on current deposits.(56) The Government maintained its own treasuries and so far as Calcutta was concerned the Sub-Treasurer and the native cash-keeper had the joint control and joint responsibility of the General Treasury. Specie and Bank notes usually were kept in the Treasury and bullion was generally set aside in the Mint which remitted immediately coin to the General Treasury. The average minimum balance kept was £5,00,000. Considerable balançe existed in the other treasuries. Every political resident and several

(56) *See* the answer to Qn. 10—Select Committee of the House of Commons, March, 1832.

collectors had treasuries having balances to provide for the necessary disbursements and the total cash balances usually amounted in the first quarter of the 19th century to 5 or 7 millions sterling. The treasuries at Furruckabad and Benares had considerable reserves and bills were sold against them for the supply of troops in the Deccan. The principle was always to sell drafts against treasuries having surplus balances. The Murshidabad treasury also had to keep higher balances than the rest of the Bengal treasuries for the tribute to the Nizamat had to be paid and advances for securing silk had also to be made by it. But no other treasury as a rule had greater reserves than the General Treasury at Calcutta. The maintenance of these treasuries was the first cause of the paucity of deposits in the Presidency Banks. Cash Balances were maintained far in excess of the actual expenditure and they ranged during the last decade of our study from £11 mils. to 18 mils. roughly.[57]

Before the Presidency Banks were ushered into existence the Agency Houses secured the deposits of the civil and military servants of the Company on paying a high rate of interest. They had also the choice of investing their savings, a part of which was ill-gotten wealth in the Government loans floated

(57) Samuel Laing says that "under the old system in India a cash balance of 10 millions sterling sufficed and with railways and an improved currency and arrangements with banks we could carry on the business of the Government with perfect ease with a balance of seven or eight millions sterling"—Quoted in the Edinburgh Review—August, 1863—p. 204.

at high rates of interest ranging from 8 to 10 per cent. As public credit improved the securing of the high rate of return was no longer possible. The Agency Houses failed in the commercial crisis of 1829-1831. Since that time the Bank of Bengal, the Union Bank, and the Agra Bank and the Calcutta Branch of the Bank of Western India were the only institutions doing business in Calcutta in the first half of the nineteenth century. Many of the European people did not prefer them or the non-Presidency Banks as their sole object was to get rich quick and get out of the country as early as possible. They preferred the investment of capital in productive enterprises giving them scope to earn rapid fortunes instead of the miserly pittance which the Banks would have given them as the deposit rate of interest.

Most of the wealthy natives barring the commercial and mercantile people had the choice of investing their money on land or lending money to the people at a high rate of interest. Even Government securities were not preferred by them. An analysis of the list of subscribers to the Government loans does not reveal the fact that the Indian people have contributed in due proportion to their relative numbers. Perhaps also the frauds and mismanagement on the part of the officers of the Banks and doubts of the instability of the Company's rule acted powerfully enough to deter the people from depositing their savings in Banks. Credits

on the books of the Banks to be operated upon by cheques and drafts were little used.

The Presidency Banks of Bombay and Madras instructed their agencies to pay a rate of interest on fixed deposits. The non-Presidency Banks paid for the current as well as fixed deposits. The rate of interest paid by them ranged from one per cent. to such figures as was considered expedient for the managers or directors of the Banks to pay at that time.

THE MAIN SOURCE OF BANK PROFITS.

Banking profits of those days must naturally have been secured not by the employment of others' money secured as deposits but by the high rate of interest which the banks charged on somewhat risky and questionable securities of that time. Wealthy people had the opportunity to lend at high rates of interest on land and hoarding existed to a certain extent. Under such circumstances there could not be any scope for extensive bank deposits. Deposits were a meagre factor even in the case of the quasi-State Banks. Bank-notes counted greater than the capital stock.

BANK POST-BILLS.

Another important source by which the Banks of this period succeeded in adding to the working capital was the sale of the post-bills. It was in 1826 that the Bank of Bengal first issued the post-bills. These were never issued except for cash

and the average amount in the case of the Bank of Bengal and Bombay was very small while that of the Bank of Madras received great impetus during the decade between 1852 to 1862.[58] The Presidency Banks' post-bills [59] were issued without charge and made payable at the end of three or seven or other number of days. [60] One peculiar circumstance not referred to by others was the fact that they were used as means of remittance to England. [61]

The non-Presidency Banks also began to issue post-bills. But there was a gross abuse of this privilege by one of the Joint-stock Banks of this period. A Bank's own post-bill is of the nature of a draft drawn at a short date, say, three or seven or 14 or 21 days at the utmost. It is drawn mainly for remittance purpose and so far as contemporary banking practice was concerned the country banks of England drew such bills on their London Agents. [62] The bank post-bill was not subject

(58) *See* C. N. Cooke—Banking in India—p.153. "In 1852 its post-bills amounted to Rs. 2158 but these increased to Rs. 78534 in 1862."

(59) *See* Appendix V of this monograph.

(60) *See* rules of the business of the Bank of Bombay quoted by Meculloch in his Dictionary of Commerce—1854 Edition.

(61) When funds were too small to be remitted by public bills which were used for lower sums of £1000, the Bank post-bills of the Bank of Bengal were employed and this practice was given up after 1852 as the Court of Directors were of the opinion that this practice meant the violating of the Bank Charter Act.—Letter from the Court to the Governor-General, No. 12 of 1852 dated 25th February—paras. 42 and 43.

(62) So far as the bank post-bills of the English country banks drawn on London Agents were considered the commission charged was 1-8 per cent. The Bank of England's post-bills were payable seven days after sight because they had to be accepted in the first instance. *See* Gilbart.—History, Principles and Practice of Banking—Sykes' version—Vol. I, p. 41.

to stamp duty and was advantageous to the public and economised the circulation of currency to a great extent. Such advantages were not, however, reaped in the case of the Indian bank post-bills. Taking the case of the early European banks we find that their well-meant efforts to undertake remittance business by means of post-bills did not succeed. Coming to the Union Bank we find that it issued printed post-bills from 1839 for various amounts and often indeed for large amounts. They were signed by two directors of the Bank. They were current in Calcutta and until 1844 there was no abuse of this privilege. But soon after this year they were issued enormously "even approaching a million sterling." So long as the money was actually paid into the bank for the post-bills it was safe to issue them. These had to be paid on maturity. The Union Bank did indeed pay its post-bills on maturity until its actual suspension of business in 1848. As it was more convenient to issue post-bills than bank-notes which were payable to bearer on demand these post-bills were issued in very large quantities during 1846 and 1847. Instead of being issued only against cash they were issued against securities instead of cash. (63) Bills of exchange were also purchased by issuing long-dated post-bills and a fund was thus accumulated in London by this method to

(63) *See* W. P. Grant's defence of his management of the Union Bank. For the the contra view—*See* J. G. Stewart's pamphlet condemning W. P. Grant's statement. Both these pamphlets are available to the reader in the Imperial Library.

enable the Union Bank to draw drafts against the same without the Union Bank paying cash immediately for the original bills of exchange. Again post-bills were issued when cash credits were granted by the Bank. The advances made to Colville Gilmore and Co., Cockerell and Co. and Hickey Bailey and Co., consisted in issuing post-bills in payment of cash credits granted to them against collateral security. A gross abuse of this function in this manner was one of the reasons that actually led to its failure.

LOTTERIES.

Banks of this period undertook the sale of lottery tickets and managed the lottery money. Substantial deposits accrued to the Presidency Banks under this heading. We have already seen how the Hindostan Bank, the Carnatic Bank and the British Bank were asked to undertake the sale of tickets on behalf of the lottery funds. This was the case till 1831 when it was declared illegal to float private lotteries. The Lottery Committee of Calcutta was abolished by the Supreme Government as a result of the orders from the Home Government. In Madras also very good service was usually rendered by the Lotteries. Profits from the Lotteries were utilised towards the construction of roads and the provision of many other civic amenities. (64) This was the

(64) *See* the Madras Courier's protest on the abolition of the Lotteries in 1831 quoted in the Asiatic Journal.

case when the civic consciousness of the people was not fully developed and when it was not found feasible to raise money by means of local rates levied on the residents in the cities.

Summing up the case we do not meet with increasing deposits on any really encouraging scale. We have already mentioned a few of the real reasons hindering the growth of the deposit habit. These alone must account for the paucity of deposits. The Company's servants had the chance to lock up their savings in the different loans floated by the Government. The natives, then as now, preferred landed property. The practice of hoarding precious metals[65] continued as before. Private money-lending fetched decidedly higher rates of interest than what could be paid by banks. The native bankers paid the depositors on the average about three per cent. and as they could create confidence in the minds of the local depositors these depositors could never have trusted the European Bankers even if they dared to conduct business in the interior.[66]

(65) So early as 1770 Scrafton pointed out this tendency of the people to bury their precious metals. "Vast sums were lost in consequence of burying money in the earth and prices do not seem to have risen materially in the East or the precious metals to have become more abundant notwithstanding the vast quantities that used to be sent hither." *See* p. 16 "Reflections on the Government of Hindostan". That it was carried on though to a lesser degree throughout this period can be gathered from the evidence of Holt Mackenzie before the Select Committee on Affairs of India. Qn. 321 *et seq.*

(66) *See* the Evidence of Ramgopal Ghose, a leading merchant of Calcutta before the Mansfield Commission.

Reserve Fund.

Another part of the working capital of a bank is generally made up of the reserve or the undivided profits belonging to the shareholders who consent to set it aside as a shock-absorber in case of unforeseen failures on the part of the bank borrowers or depreciation of bank's investments and as an aid to the working capital resources of the bank.[67] Judged from this standpoint it is curious to note that no proper attention was paid to the accumulation of a decent reserve even by the Presidency Banks. The formation of the reserve on the part of the Bank of Bengal commenced only in 1839 as a result of the Bank Charter Act of 1839. The formation of a reserve fund which was not to exceed five per cent. of the capital stock of the Bank was sanctioned but much progress was not recorded in this direction even by 1862 when it amounted to only two lakhs. So far as the Presidency Bank of Bombay was concerned it accumulated a reserve fund from the very beginning of its operations and a reserve fund of Rs. 20,832, was gathered during the course of its operations extending over fourteen months and it also paid five per cent. dividend to the shareholders.[68] It is indeed inexplicable why practical bankers even fail to draw attention to this feature of the early European banks. Cooke

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(67) *See* my Elementary Banking—The objects and means by which the reserve fund is accumulated are fully discussed. *See* pages 31 and 32.

(68) *See* the Asiatic Journal—p. 197, Oct., 1841.

does not care to point out the separate figures of the reserve fund in the case of the Banks of Bengal and Madras. A detailed statement of the reserve fund and its growth in the case of the Bank of Bombay is furnished by him on p. 175 of his book.

Coming to the non-Presidency Banks, the same lack of appreciation as regards the indispensable utility of a reserve fund to a bank becomes manifest. Taking the Union Bank of Calcutta into consideration we notice that it was only in 1841 that the reserve fund was accumulated. A resolution to that effect was made by the shareholders in their annual meeting held on 15th May, 1839. "The object was to meet casual losses. All fractional dividends were to be carried to the reserve fund and when dividends were to be in excess of eight per cent. all fractional parts of the rupee were to be carried to the credit of the reserve fund. The limit of the reserve fund was fixed at rupees two lakhs and no additional funds were to be credited to the reserve fund above two lakhs of rupees until the dividends to the shareholders were to be increased by one per cent. per annum."

The same money-grabbing tendency of the shareholders is visible in the case of the Agra Bank. From a study of the Agra Bank's operations in 1840 it becomes plain that the shareholders were too anxious to secure dividends. They never allowed the Bank Directors to accumulate a good reserve fund out of the annual profit. "When a dividend at

the rate of 10 per cent. per annum or Rupees 25 per share was proposed to be declared as the dividend and that the balance of Rs. 6,786 was to be carried to the reserve fund the following amendment was moved and carried without making any specific allocation to the reserve fund." It was argued that "the maintenance of the reserve fund being in opposition to the wishes of a large majority of the shareholders the small balance not at credit of that fund be appropriated for the purpose of a dividend accordingly and that a dividend be declared at the rate of 11 per cent. or Rupees 27 and annas 8 per share."(69) Even the shareholders of modern banks sometimes complain that too great a portion of the profit is incorporated in the reserve.

Investments.

It remains to study how the working capital of the banks was usually managed by the banks. Investments, loans and discounts formed the bulk of the paying assets of these banks. Their cash reserve was, of course, an idle asset which earned nothing directly. Taking the investments of the Presidency Banks into consideration the Presidency Bank of Bengal invested freely in the Company's paper and when loans were made on forged Company's paper the Bank had to sustain considerable losses until funds belonging to the native from whom it was received could be traced and recovered. The usual

(69) *See* the Asiatic Journal—*Ibid.*

practice was to hold largely the Company's paper and at the time of the Burmese War four per cent. Company's paper to the extent of twenty-five lakhs of rupees was held by the Bank of Bengal. It resold them promptly to increase the loans and discounts to commercial borrowers as soon as the latter began to make demand for bank cash but it was very often the case with the P. Bank to invest largely in the Company's paper and the public often remonstrated against the high rates of interest caused by the Bank locking up too much money in Government securities. The Bank of Bengal, however, did not suffer from any disability to sell the Company's paper when it required ready money.

So far as the commercial banks' investments were considered they could only be Government securities for others of a liquid nature could not be had during those days. The Presidency Banks' investments were either in Government paper or kept as hard cash. It is apparent then that the operations of public finance served to enrich these banks.(70)

The present-day tendency of holding investments permanently and for the floating account was not evidently in operation in those days. Modern banks generally decide what amount of securities they wish to hold permanently and what amount as a floating account. The permanent account which does not

(70) *See* the Appendix VI which indicates the banks' holding of the Government loan floated in 1843.

exceed a particular figure is not revalued half yearly with the idea of reappropriating the profit. Revaluation occurs only if a marked difference arises and is bound to be permanent at that figure. Investments under the floating account are revalued half yearly on the basis of market rates on the last day of each half year and any profit or loss is credited or debited to the profit of the half year. There is no evidence that such an enlightened procedure was adopted by any of the banks of this period. Symes Scutt says that the Presidency Bank of Bengal adopted this intelligent procedure only in 1875.[71]

THE CHARACTER OF THE LOANS.

Fixed loans were made on the deposit of Company's paper or guaranteed railway shares at six to seven per cent. rate of interest. Besides this kind of security loans were freely granted on opium, salt, metals, indigo and other non-perishable goods at slightly higher rates of interest ranging from seven and half to eight and half per cent. Other goods such as silk, sugar, cotton, and rice were also eligible for bank advances either to Natives or Europeans who possessed undisputed title to goods. It was only in 1860 that advances against piece-goods were permitted for the first time. Loans against mortgage of real property were prohibited by the Bank Charter and there was often a limit fixed

(71) Symes Scutt says that a limit of one crore of rupees was fixed in the case of the Permanent Account of the Investments of the Bank of Bengal.

to the size of the individual loan that could be made by the Presidency Bank. Till 1839 the limit of individual loan was fixed at one lakh of Rs. and the 1839 Charter raised it to three lakhs. This limit was removed only by the Bank Charter of 1862. The minimum amount of any individual loan that could be made by the Bank of Bombay was Rs. 500. The minimum sum for an advance against Government security by the Bank of Bengal was fixed at Rs. 3,000 in 1841.[72]

Cash Credits.

The cash credit system[73] which has received such wide extension to-day in the Indian Banking system was first introduced by the Union Bank in 1839. The loan made to the Calcutta Docking Co. by the Union Bank was the first cash credit granted in the Indian banking system. Cash credits were granted by other banks on the deposit of Government securities and on guaranteed railway shares, goods or bullion at six to twelve per cent. rate of interest for a length of 45 days to three months. The private banks stationed in the interior made advances on all kinds of securities and also advanced money on consignment of salary bills of Government officials. On mortgage of real property loans were

(72) *See* Mc culloch—Dictionary of Commerce—Article on Calcutta.

(73) For a proper and impartial estimate of the advantages and disadvantages of the cash credit system, *see* Hume's "Essay on the Balance of Trade"—or the Report of the Lord's Committee of 1826 on Scotch and Irish Banking quoted by Mc culloch in his Dictionary of Commerce—1854 Edition.

made by them. Life insurance policies were also eligible as collateral security and the North Western Bank of India made loans freely on such policies. The Bank of Agra began its business by lending money on the stock of the Calcutta and Bombay banks. Overdrawing by constituents was freely allowed at the Union Bank and during the years 1835 to 1840 the management was so lax that one A. H. Sim, an officer of the Bank, committed frauds to the extent of £1500. The officers of the Union Bank were allowed to deal on their own account in the purchase or sale of the bank shares. The time limit of four months was very often evaded on the pretext of the promise made at the time of the advances to renew the loans.(74)

It was not the non-Presidency banks alone that usually extended the time-limit of the loans and made excessive overdrafts to individual borrowers. But even the Presidency Bank of Bengal had to pursue a similar course on emergent occasions. The policy of nursing was adopted in the matter of its loans to Palmer and Co. which was granted roughly twenty-three lakhs to enable it to withstand the awful crisis of 1831. Similarly, the non-Presidency banks always lent heavily to the indigo houses(75)

(74) *See* J. B. Brunyate—"An Account of the Presidency Banks"—p. 14 foot-note.

(75) *See* the pamphlet entitled Facts relating to the Union Bank explanatory of the connection of the late firm of Cockerell and Co. of Calcutta by A.J. De. H. Larpent—Cal., 1848—one copy of this valuable pamphlet exists in the Imperial Library.

and the Directors of the Union Bank were allowed to become heavily indebted to the Bank on purely personal security and when these speculated heavily in the value of bank shares and bills of exchange the bank money became locked up.[76] This was the real evil which limited its usefulness. As one of the critics rightly pointed out "the Union Bank which possessed the largest amount of paid-up capital of all banks in Asia was able to do very little in promoting the wealth of the country as it was solely used for promoting individual wealth."

Discounts.

It has already been stated that the discounting of bills and the making of loans on tangible securities were some of the important operations performed by the Presidency Banks. A reference to the detailed operations of the Presidency Banks shows that two kinds of bills were freely discounted. The Government and the salary-bills were discounted at two to four per cent. lower rates than private trade bills. The average rate of the discount on the Government salary bills was roughly five per cent. and ranged to seven per cent. in days of tightness of money. Bills of local banks were discounted by the Presidency banks at five to six per cent. rates. Promissory notes with one name protected by security of Government paper or railway shares were also

(76) *See* J. C. Stewart's pamphlet condemning Mr. W. P. Grant's management of the Union Bank.

discounted by the Presidency Banks at six to seven per cent. rates. Notwithstanding this, the discounting business of the Presidency Banks was insignificant up till the year 1860. It absorbed only one-tenth of the funds set aside towards loaning. Up till 1836 the Presidency Bank of Bengal was never briskly conducting these operations and it took roughly three days to discount bills while it took one day in the matter of extending a loan. This abnormal delay was one of the reasons why aspersions were cast against official management and a non-official Secretary was appointed in lieu of the official secretary even in spite of Government protests.

Even the non-Presidency banks specially the mofussil ones did not conduct the discounting of bills on a large scale.[77] During those days when internal trade was restricted largely as a result of defective means of communications no bills could have been drawn in the matter of internal trade financing. One of the essentials of an orderly economic life, *viz.*, cheap and economic means of communications was lacking.

(77) Mr. Fullarton remarks that "7-11 of the invested capital of the Agra Bank was lent on loans to members for 12 to 18 months. Loans were made to individuals in cash account on mortgage or loans to individuals were made on personal security. Only Rs. 13,346 worth of salary bills was discounted." As an appropriate commentary on mofussil banking he very properly remarks "that there was no necessity of banks under such conditions"—Refer to his Minute, on East India Bank proposal.

The pernicious practice of renewing bills on *the payment of an additional one per cent. on the old rate of discount was allowed by the Presidency* Banks. Such a practice existed throughout this period of our study and it was only in 1870 that this privilege and the power to renew the discounted bill was withdrawn. But even when this privilege existed we do not find the Presidency Bank of Bengal discounting a large volume of private trade bills. Brunyate says that "up to 1866 a fair proportion of Bank money was never employed in discounting bills of exchange."

OTHER OPERATIONS.

Some of the other profit-yielding operations of the banks were the purchase and sale of bullion and coin and Government securities. Both the Presidency Banks and the non-Presidency Banks indulged in this kind of business. The Oriental Banking Corporation generally arranged for the purchase of bullion in London and sent it to the local mints at Calcutta, Madras and Bombay.

NON-PAYING ASSETS.

Coming to the cash reserve kept by the Banks the Presidency Banks had rules framed in the different charters regulating the state of their cash balances as against their outstanding liabilities. The Presidency Bank of Bengal had to keep one-third of its total liabilities in cash according to the 1809 Charter. It was reduced to one-fourth in the

year 1823. The Bank was no doubt keeping on an average a higher sum than this statutory proportion. But often when the demand for cash was keen, the ratio of the reserve fell actually below the legal limit of one-fourth proportion against liabilities. At such times the Bank was always enjoined to stop discounting or conduct discounting only on a very limited scale till the minimum legal proportion of cash reserve was once again attained. Brunyate and Cooke record the classical controversy of 1857. Instead of steadily refusing further discounting or raising the discount rate as suggested by the Government directors the mercantile directors, however, proposed to continue discounting as before. The threat of prosecution, however, soon forced the mercantile directors to realise their position and made them yield to the wishes of the Government directors. Thus the Government of the Bank of Bengal of the year 1857 did not fail to realise their duty. They proved their mettle during the tumultuous days of the Sepoy Mutiny.

Deficiency in the Cash Reserve—How tided over?

There were two other instances when the cash reserve fell below the legal limit. It happened in 1833 and once again in 1846. While the instance of 1833 has been recorded by all writers as the Government took particular care to discuss this incident nothing seems to have taken place in April, 1846

when the cash reserve fell to 22·5 per cent. against the total liabilities. Too much locking up of money in the Government securities must have been responsible for this deficiency of cash and the safety limit must have been reached by simply allowing the bills to mature into liquid cash and the stopping of fresh business so as to check the outflow of cash. The Bank of Bombay was similarly out of the rule in 1845.(78)

Almost all other writers refer to the extraordinary events of the awful crisis of 1831. In order to ease the monetary stringency the Bank of Bengal had to follow a liberal policy with reference to the making of loans although the legal limit of the cash reserve was reached. Similarly, the other statutory regulations were cast aside as a result of the abnormal circumstances prevailing in the money market. Symes Scutt gives more details of this incident than either Cooke or Brunyate. Even the actual balance sheet of the Bank of Bengal of that particular year is quoted by him and the correspondence that ensued between the Government and the Bank of Bengal is also referred to by him. All anomalies had to be tolerated and Lord William Bentinck who understood the exigencies of the situation condoned these mistakes or violations of the Charter as inevitable and done "in the wider interests of the money market" so as to avoid "a cataclysm of ruin and failure."

(78) *See* the Chapter on the Early History of the Bank of Bombay.

CHAPTER IV.

EXCHANGE AND THE MONEY MARKET.

Need for remittance to England.—Selling bills in India on London.—Limit to the sale of bills on the Court.—Register of bills drawn by the Provincial Governments on the Court of Directors.—Sale of bills in London on the Provincial Governments.—Letters of credit on India sold by the Court of Directors.—Items of the Balance of indebtedness.—The Rates of Exchange.—Some methods of remittance after 1813.—Money Market—Calcutta.—The Foreign investment as an item of the national balance-sheet.—Public Debt and Rates of Interest.—The First General Newspaper Report of the Money Market.—Bengal Harkaru.—The Bombay Money Market.—The Commissions for banking and financial services.

NEED FOR REMITTANCE TO ENGLAND.

Before coming to the period of our study, 1800 to 1857 a word has to be stated as regards the necessity of remitting revenue from India to England. The East India Company came to India for trading purposes and bullion was imported into the country to purchase Indian commodities which were sent to England and sold there for profit. This was the sole feature of the early trade relations. So long as the East India Company had the monopoly of

trading business the matter of remittances to England was settled by manufacturing articles or procuring articles and sending them to England. So long as the revenue realised in India was sufficient for the expenditure at home and India there could be no difficulties in either securing goods or remitting bullion from India to China to secure goods which were sold in the United Kingdom. When the payment of interest on remittable loans was granted it soon became a source of embarassment than anything else. The usual practice was to draw bills on the Court of Directors for the amount of the interest. It was also the practice to remit bullion to help the Home Treasury to pay the bills when they were for excessive amounts. These bills can be considered as the germs out of which the present day Reverse drafts have grown up so as to steady exchange at the lower value of the rupee under the Gold Exchange Standard system.

SELLING BILLS IN INDIA ON LONDON.

The method of selling bills was adopted as soon as it was realised that it would suit the requirements of both the Company as well as its servants.[1] The East India Company wanted its money to be

(1) *See* the Public Department General Letter from the Bank to Fort William —11th February, 1801—Letter No. 1, Paras. 3 and 4. In 1801 the method of drawing bills on the Court in payment of interest was allowed and the money obtained in India was used for commercial advances in investment. This was due to the fact there was no surplus revenue according to the Government to meet its commercial requirements.

in India for purchasing commodities and the best method was to sell bills in India on London which were to be paid by the Court of Directors in London. These were naturally bought by the Company's servants who had to remit their savings at the time of retirement or help their relations in England. When these bills could not be sold for large quantities they applied to the French and Dutch Companies for bills on Europe. The East India Company's servants realised this and never thought it wise that capital should flow into the hands of their rivals so easily as it could be done by this method. They always harped on the necessity of selling bills to suit the requirements of the Company's servants alone.

LIMIT TO THE SALE OF BILLS ON THE COURT.

Coming to the bills that could be sold on the Court of Directors the Indian Governments were always advised to restrict the amount. In the early days such bills could be sold only for limited amounts and in 1768 bills worth £70,000 alone were sold. But the Indian Governments usually did not heed this limit and bills were drawn between 1800 and 1810 to amounts far above the limits and amounted to roughly £ 10,000,000. Lacking the means to pay the bills on maturity the East India Company had to make an application to the Parliament for a loan.[2] When the different Provincial

(2) In 1810 it applied to the British Parliament for a loan of £6,000,000.

Governments sold bills on the Court of Directors they had to maintain a register of the bills drawn.

Register of Bills.

An examination of one Register would reveal the parties to whom these bills were generally sold. A specimen Register of the Bombay Government would make this point clear.[3]

No. 1. Bills drawn on Hon'ble the Court on account of remittance to England made by the non-Commissioned Officers and Privates of His Majesty's service to their families in Europe dated 31st October, 1834.

No. 2. Bills drawn on account of the effects of credit of deceased officers and soldiers of His Majesty's service dated 30th Nov., 1834.

No. 3. Bills drawn on account of cash payments dated 30th November, 1834.

No. 4. Bills drawn on account of interest on the Bengal loan four per cent. of 1832 to 1833.

No. 5. Bills drawn on account of interest on Bengal five per cent. loan of 1824 to 1826.

No. 6. Bills drawn on account of interest on the Bengal loan four per cent. of 1824 to 1825.

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(3) Three copies of Registers and advices of Bills of Exchange were also despatched from the Department by the earliest Overland Mail—the 2nd by the mail of the next month and the 3rd by any vessel which may be on the point of sailing to England at the period of completing the Register. *See* para 1 to 8, Financial General Letter from Fort William to the Court, No. 13 of 1842—dated Sept. 14, 1842.

These registers of bills had to be maintained and sent to the Court of Directors in England by the different Provincial Governments. Since the years when the province of Bengal fell into the hands of the East India Company a certain portion of its revenue was set apart for purchase of goods for exportation to England and this has been styled the Company's Investment. From 1783 this investment went on increasing annually and averaged £ one and one-fourth mil. a year till 1813.[4] Up till 1814 trade between India and Great Britain was a monopoly in the hands of the East India Company subject to certain checks which have been outlined in another chapter. Only few resident European merchants were allowed to settle by the permission of the Government. These were rather agents for the receipt, custody and remittance of money than full merchants engaged in ordinary commerce. In 1813 trade with India was thrown open to all but the current of European immigration into India developed into a broad stream only from 1833.[5]

(4) Hence we notice an increment in the commercial assets of the Company in India between 1793 and 1814. In 1793 it amounted to £ 1542008 and it rose to £3432868 in 1814. *See* p. 25, Third Report of the Select Committee of the House of Commons—1831.

(5) The number of Europeans in British India not in the service of the House of Commons or His Majesty or of the East India Company was as follows—

Province.	1815	1828
Bengal	1000	1595
Ft. St. George	115	116
Bombay	240	286

Sale of Bills in London on the Provincial Governments.

Even the selling of bills in London by the Court of Directors on the Provincial Governments in India was adopted on a large scale only in 1834.(6) Prior to that, it was done for specific purposes as the

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See the Third Report of the House of Commons, 1831—p. 338. Since 1814 individuals had to secure licenses from the Court of Directors to reside in India. Very often such requests were refused. The following table illustrates the above facts.

Year.	No. of persons licensed by the C. of D. to reside in India.	No of persons to whom permission was refused.	No. of persons permitted by the Board of Commissioners.
1814	11	2	1
1815	41	6	—
1816	41	17	1
1817	71	17	16
1818	69	37	14
1819	75	28	6
1820	73	16	4
1821	78	20	2
1822	101	23	4
1823	117	11	6
1824	95	14	3
1825	103	11	5
1826	99	17	4
1827	106	7	5
1828	99	14	4
1830	111	9	1

For other details see the Third Report of the Select Committee of the House of Commons 1831—p. 284. According to the Report on the Indian territories of 1852 there were only 10,000 European residents in all not being in the service of the Queen or the Company—*See* Appendix to the above Report—p. 399.

(6) *See* Financial Letter from the Court to the G.-G.-in-Council, 1856. In this year a request was made to the Courts to stop the drawing of such bills—The Court, however, refused to listen to this advice.

Company sometimes found that by the sale of goods enough money could not be realised. When such bills were drawn on the Provincial Governmnets of Calcutta, Madras and Bombay by the Court of Directors in London they used to send letters of advice first so as to enable the Provincial Governments to honour their bills of exchange. This system generally worked satisfactorily. Sometimes when these letters of advice were received later than the bill of exchange itself they were not usually honoured with payment. But when the parties to the bill were known to be respectable parties the Provincial Governmeets usually honoured them with payment in spite of the non-receipt of the letter of advice.(7)

Letters of Credit on India sold by the Court of Directors.

In addition to the bills of exchange the East India Company also sold letters of credit to persons who wanted to remit funds to India for sums below the minimum amount for which the bills were drawn on the Provincial Governments. These letters of credit were usually granted to " afford parties proceeding to India in the Company's service and to

(7) One Firm *viz.*, Hormuzee Bomanzee and Sons presented a bill for £2000 but as the Letter of Advice was not received the Secretary of the Bombay Government undertook to pay it "to avoid anyawkwardness arising out of non-acceptance." Knowing the party to be sound and respectable merchants and realising that there would be no risk in paying the bill it was accepted even without the Letter of Advice and the matter was reported to the Court of Directors who approved the proceedings of the Bombay Government.

His Majesty's service whose regiments are stationed in or under orders to proceed to India, the means of remitting through the Company sums of a less amount than that fixed for the grant of bills upon India." These individuals had to pay into the Home Treasury in sums of £10 or £100 for which Letters of Credit were drawn on the Provincial Governments in India payable in the respective currencies of the Provinces.(8) Sometimes double payments of these letters of credit happened to take place owing to inadvertence or oversight on the part of the officers of the Provincial Governments.(9)

The Items of the Balance of Indebtedness.

In addition to the Company's charges, private remittances from India to England swelled the remittance item and the Company strove to encourage the resources of India to enable her to meet these payments. Economy in public expenditure and assistance to India's export trade were also devised to solve the problem of excessive remittance. Private Englishmen strove to point out these self-same remedies when attempts were made by the East India Company to increase its imports into India such as cotton and salt from Liverpool. The exclusion of Indian sugar by means of high duties

(8) *See* the Financial Letter from the Court of Directors to the Bombay Government dated 29th January, 1836.

(9) *See* the Financial Letter from the Court of Directors to the Bombay Government, Letter No. 12 of 1848.

was likewise condemned on the ground that it would curtail the capacity of this country to meet the growing items of charges under the heading of remittance. The third item was the commercial item, *viz.*, the imports brought into the country.

Exports from India had to cover the imports, the public tribute and the private remittances sent home. Whenever export trade was stagnant as was witnessed in the years following the failure of the Agency Houses and a temporary suspension of commerce ensued the Court of Directors generally realised funds by lowering the exchange rate of their bills drawn on India in London. That is they contented themselves with lesser pence than the fixed rate in order to realise their money in England. As Indian exports were stagnant there were fewer Englishmen ready to remit their funds to pay their indebtedness to the Indian exporters. Hence, if the fixed rate was applied now there would be fewer people willing to part with their English money. After all there was no necessity compelling them to do this. So the Company had to lower the English value of the rupee. Similarly, when the Indian goods were not sent to the Court or when the Court had a depleted Home Treasury the bills that could be drawn on these depleted resources had to be limited. So the English money paid out by the Court for the rupee was reduced to deter the number of applicants for these bills. Such were

the artificial means of exchange regulations pursued now and then by the Court. The lack of fixed exchange meant trouble so far as its own adjustments were concerned and it was realised that tampering with the rate of exchange was not after all the correct method of meeting the indebtedness. They soon came to realise that the best solvent for these troubles would be to encourage the export trade from India. With this view they strove to encourage agriculture and the semi-manufactures of this country so that external commerce might expand. If a surplus export were to be realised there would be no need to remit bullion from this country, or alter the rate of exchange.

The Rates of Exchange.

Bernier says that "the rate of exchange in 1664 was 29*d.* for the rupee. Ever since the magnitude of the Company's trade with India began to attract notice in England the rate of conversion of the English into Indian money was fixed as follows: 2*s.* 3*d.* for the current rupee and 8*s.* for the star pagoda. This was the rate till 1789. Mr. Dundas, the President of the Board of Trade, altered the rate of conversion to two shillings for the current rupee and this continued till 1814.

One objection raised by the Company against the closing of the trading monopoly in 1813 was the supposed difficulty it would experience in making this remittance. It was not recognised by it that

bills could be bought from private European traders. Secondly, the East India Company could continue providing the remittance indirectly by sending opium to China and buying tea and other things to be sent to England. Thirdly, bullion could be exported from Bengal to London if only sufficient funds existed in the hands of the Government. The different currencies might have rendered this difficult and India perhaps would have had suffered to a certain extent if silver bullion was sent from the country. Lastly, the Company could have drawn on India for what it required and sold these bills in the London money market. But it was realised that there were indeed two limitations on the successful operations of this method. The revenue resources in India and the requirements of the English capitalists who wanted their money in India would have limited this method. So long as the Europeans did not resort freely in large numbers to this country there would not be any demand for Indian money on their part and the bills sold by the Company against the Government in India would have been limited under such conditions. Realising the possibility of remitting the territorial revenue to England all the objections of the Company were overlooked and trade was thrown open to all.

From 1813 full trade influences began to operate on the exchange situation. With the opening of the foreign trade to private merchants in 1813 the rate of exchange began to fluctuate according to

strict commercial principles. When the balance of trade was highly favourable to India and when English currency was depreciated it was easily possible to maintain the sicca rupee at 2*s*. 6*d*. It sometimes rose above this selected rate of 2*s* 6*d*., the rate which was selected as the rate to be observed in loan transactions. But after 1818-1819 there was no longer any depreciation in English currency. With the closing of the Napoleonic War and the return of peace monetary conditions improved in England. Metallic currency was once again restored. The resumption of specie payments by the Bank of England in 1821 improved the domestic currency situation in England. In addition to this fact it must also be recognised that there was a decline of the export of piece-goods from India and as trade was now open to the public the market rate of exchange began to fall to 1*s*. 11*d*. per Sicca Rupee in Bengal for bills on England and to 1*s*. 9*d*. in England for bills on India (Bengal). Hence the Company's conversion rate had to be altered to the lower figure of 2*s*. 1*d*. per Sicca Rupee. From 1822 the rate of exchange between His Majesty's Government and the East India Company's was to be the actual market rate. Thus there was a departure in this case also from the old established rate.[10]

(10) *See* the Select Committee of the House of Commons—1830—pp. 950-953.

The annual imports and exports rose and the following table shows the figure from Bengal.

Imports	... Rs. 16,79,14,286
Exports	... Rs. 44,58,91,038

The visible balance was enormously in favour of Bengal but the specie imports and bills on the Bengal Treasury have to be counted before the net exports can be understood. Adding these two there was a deficit of Rs. 201,98,455 unaccounted for by exports. But the rate of exchange was above the bullion exportation rate from India. So the real cause for this phenomenon was that there was surplus remittance from Bengal arising out of individuals remitting their profits. As this private remittable capital began to increase it could have been indeed difficult to transfer these to London but for the fact that Europe's demand for Indian goods was exceedingly large. As communications developed and peace was restored more goods were sent from this country and the increasing annual remittances of private profits and the annually increasing East India Company's expenditure could be sent easily without disturbing the rate of exchange or causing a great slump or depression in it.

SOME METHODS OF REMITTANCE AFTER 1813.

During the years 1814-1833 the East India Company still clung to trade as a means of remittance. The E. I. Company imported into England raw silk prepared in their factories, silk piece-goods from

Berhampore, saltpetre prepared in the Company's factories and indigo purchased at Calcutta and sugar which was given up in 1828.[11] The import trade into India was carried on even though it was a loss. By 1824-1825 the E. I. Company recognised the loss involved in this matter and gave up sending imports into India as before except the military and political stores. One of the main reasons for this was the difficulty of securing adequate Indian manufactured goods that could be sold at a profit in England. Thus the import trade of the Company from India to London was chiefly continued as a means of remittance. The method of remittance by means of bills was recommended by the Company to the Bengal Government in their Letter dated 6th September, 1813.[12] It was not resorted to

(11) *See* the Appendix for the Company's investment in these articles as a means of remittance during 1814 up to the date when these were given up.

(12) *See* the Financial Letter of Sept., 1813 from the Court to the G.-G.-in-Council. *See* the Letter from the Court of Directors—3rd June, 1829. Instead of drawing bills for the interest payable on debt on the C. of Directors for very inconveniently large sums other plans were devised.

1. Advances to public services, the amount being repayable to the Company by His Majesty's Government.
2. To negotiate bills on Bengal in further part of the estimated demand of the Home Treasury but this was to be dependent on the state of trade between England and India.
3. By making further advances to the Commercial Department for the purchase of goods.
4. Bullion from India to England. As several difficulties had to be encountered the Company always insisted on the making of early forecasts or probable forecasts of probable drafts on H. Treasury and the taking of such measures as would enable the H. Treasury to pay the drafts. That bills payable at 2*s.* per sicca rupee were to be drawn after 12 months' date from 30th June or 31st Dec. of each year.

immediately. But the idea was to make advances to individuals on the security of goods and merchandise to be consigned to the Company's care and management in London. Other suitable safeguards[13] were also devised by the Company and when a trial of this system was made it did not immediately succeed. Only bills about £4,00,000 were sold in the course of 24 months. However, this method was not given up.[14] It was revived after 1834 and continued throughout this period till 1847.

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(13) *See* para 29, 30, 31, 32 of this Letter "The consignments were to be insured policies placed in the hands of the Government till advice shall be received of the payment of the bills"—⅔ of the value of the goods alone to be advanced.

(14) *See* Macgregor "The Oriental Commerce"—p. 642. This practice was given up in 1847 as a result of failures of the Agency Houses which conducted remittance business also. The East India Company which used to make advances in India against bills of lading to about £2 millions a year gave up this practice on "public grounds." The Chartered Bank of India, Australia and China consequently thought that exchange business would be profitable and as the Agency Houses failed there would be scope for conducting local banking. Macgregor says that remittance was made to a great extent from India by advances on exports to England, the goods being held in security by the Company's servants. For an idea of the extent of these advances the following table would be of use.

From August	to	31st July.	Remitted by advances on Hypothecated goods. £	s.	d.
1837	to	1838	15,03,016	4	3
1838	,,	1839	7,51,035	1	6
1839	,,	1840	10,09,831	17	5
1840	,,	1841	12,29,802	16	1
1841	,,	1842	3,85,359	11	9
1842	,,	1843	5,85,138	13	11
1843	,,	1844	1,39,466	6	0
1844	,,	1845	6,37,808	16	10
1845	,,	1846	5,31,827	18	2
1846	,,	1847	12,68,656	8	1

Another method advocated and pursued during this period was the advancing to the Public Services which were repayable by His Majesty's Government in England. Such advances of this sort were to be regularly vouched and transmitted in person to the Company signed by a responsible officer.

The rates of exchange prevailing in the market from 1814 to 1832 are mentioned by Macgregor in his "Oriental Commerce."(15)

Year.	Rate of Remittance.	Year.	Rate of Remittance.
1814-1815	2s. 5d. ½ per Sa. Re.	1824-1825	1s. 11d. ½ per Sa. Re.
1815-1816	2s. 5d. ¾ ,, ,, ,,	1825-1826	1s. 11d. ¾ ,, ,, ,,
1816-1817	2s. 10d. ¾ ,, ,, ,,	1826-1827	1s. 11d. ½ ,, ,, ,,
1817-1818	2s. 8d. ½ ,, ,, ,,	1827-1828	1s. 9d. ,, ,, ,,
1818-1819	2s. 4d. ¼ ,, ,, ,,	1828-1829	1s. 8d. ,, ,, ,,
1819-1820	2s. 0d. ¾ ,, ,, ,,	1829-1830	1s. 8d. ¼ ,, ,, ,,
1820-1821	1s. 11d. 42-100 ,, ,,	1830-1831	1s. 9d. ¼ ,, ,, ,,
1821-1822	2s. 1d. ½ ,, ,, ,,	1831-1832	2s. 1d. ,, ,, ,,
1822-1823	2s. 1d. ¼ ,, ,, ,,	1834-1835	2s. 0d. ,, ,, ,,
1823-1824	2s. 0d. ¾ ,, ,, ,,	1835-1836	2s. 1d. ,, ,, ,,

When the renewal of the Charter came up in 1833 the question of how to make the remittance was once more raised. Several witnesses gave several methods but we find the great banker J. Heorsly Palmer, the Governor of the Bank of England recommending remittance by means of bills and bullion. He preferred the bill to specie remittance

(15) *See* page, 228, also 192. *See* Macgregor "Oriental Commerce."

even. Thirdly, the Company could draw bills upon its Indian Treasuries to the extent of the required sum. The bullion level could always be a check to lower exchange. Other witnesses advocated the buying of bills from mercantile Houses but the Company was always afraid of a monopoly on the part of these Houses and were always reticent to trust the credit standing of these commercial houses. From 1814 these Houses began to increase in number till there were roughly 30 to 50 of them in Calcutta alone. Though not all of them were responsible firms, bills of about 20 firms could be accepted and remittance secured solely through the agency of bills drawn on England. The bills of lading of cargoes could be taken as security and thus trade also could be facilitated by this procedure. Mr. N. M. Rothschild suggested the throwing open of trade to all people and this would increase the number of traders who would be willing to buy bills at the Royal Exchange in London on India and the remittances of bullion from India to London may be obviated. In his opinion the procedure could be similar to the English Government selling bills to English merchants on Continental towns.

In 1833 the Company's monopoly of the China Trade was removed and the necessity to maintain a fixed rate of exchange by the Company was no longer felt. It depended purely on trade influences

and the following figures from 1837 to 1860 which form the period of our study make it clear.

Year.	Exports of merch-andise.	Imports of merch-andise.	Net Silver.	Imports Gold	Pay-ments in India Council drafts.	Total imports.	Silver coin-age.	Exchange Rate.
1837	112	50	20	4	17	91	39	2s. 0d. $\frac{1}{4}$
1838	118	52	26	3	23	104	34	2s. 0d. $\frac{1}{3}$
1839	109	58	17	2	15	92	40	1s. 11d. $\frac{1}{4}$
1840	135	84	14	1	12	111	31	1s. 11d. $\frac{1}{4}$
1841	138	78	13	2	26	119	30	1s. 11d. $\frac{1}{4}$
1842	136	76	30	2	12	120	38	2s. 0d. $\frac{3}{16}$
1843	173	88	37	4	28	157	33	2s. 1d. $\frac{1}{4}$
1844	166	108	20	7	25	160	47	1s. 11d. $\frac{1}{4}$
1845	170	91	9	5	31	136	47	1s. 11d. $\frac{3}{16}$
1846	154	89	14	8	31	142	38	1s. 11d. $\frac{3}{16}$
1847	133	86	5	10	15	116	20	1s. 10d. $\frac{1}{4}$
1848	161	83	3	13	19	118	18	1s. 9d. $\frac{3}{4}$
1849	173	103	13	11	29	156	26	1s. 9d. $\frac{13}{16}$
1850	182	116	21	13	32	181	24	1s. 10d. $\frac{1}{4}$
1851	199	122	29	13	28	192	26	2s. 0d. $\frac{1}{4}$
1852	205	101	46	12	33	192	42	2s. 0d. $\frac{1}{4}$
1853	193	111	23	11	39	184	55	2s. 1d. $\frac{1}{4}$
1854	189	127	0	7	36	170	53	2s. 0d. $\frac{1}{4}$
1855	230	139	82	25	18	264	14	2s. 1d. $\frac{1}{4}$
1856	253	142	111	21	29	203	70	2s. 0d. $\frac{1}{4}$
1857	275	153	122	28	13	316	101	2s. 0d. $\frac{3}{4}$
1858	299	217	77	44	0	338	126	2s. 2d.
1859	280	243	111	43	0	397	65	2s. 2d.
1860	330	235	53	42	0	330	107	..
1861	363	223	91	52	8	374	52	..

During the Mutiny years 1855-57 there was an excess of imports and council drafts over exports by about 34ms. of Rs. and exchange was higher than the previous year and this anomaly can be accounted for by the circumstance that there existed a conspiracy in the land before the actual break-

up of the Mutiny. Imports were difficult to be realised in the days of the Mutiny, the Treasuries were robbed and no council drafts were sold and bullion was remitted in place of actual merchandise. But nothing about the rate of exchange can be warranted out of the abnormal conditions prevailing during this period 1855-1856 to 1859-1860. Exchange was higher and silver was flowing into the country in spite of the fact that imports were higher than the exports.(16)

THE CALCUTTA MONEY MARKET.

Throughout the latter half of the 18th century the money markets either at Calcutta, Bombay or at Madras were assuming only gradual importance. It may be said to have come over the Seas with the English. The successive wars which the East India Company had to wage brought together the loosely associated money market which began to make profits from the dealings in the public debt of the East India Company and from the dealings of a rapidly expanding foreign trade of the country.

So far as the Calcutta Money Market was concerned the Early European Banks, the Bengal Bank, the General Bank of India and the Bank of Hindostan were conducting banking business. They enjoyed the privilege of note-issue and the smallest note

(16) *See* J. Rushton—Indian Exchange—How affected by the Home Charges—1888—p. 16. *et seq.*—A copy of this highly valuable monograph is to be found in the Imperial Library.

which was issued by the Bank of Hindostan was for rupees four. There were no regulations restricting the issue of the private banks. Their notes circulated as far as Chandranagore and Serampore about twenty-five or thirty miles and had no circulation in the rural areas to any extent. They were slowly educating the people in the use of cheques. They tried to accommodate their customers and the general public by granting bank post-bills to facilitate their remittance operations. They had close business relations with the Government and public associations and strove to check the heavy discount on the treasury orders and the other paper issued by the Company. They discounted bills at rates ranging from 6 per cent. to 12 per cent. There were the indigenous bankers who tried to remit money by their hundies and were cautious in granting advances to the Bengal Government on the basis of mere credit instruments. There were also the Agnecy Houses started by the English merchants acting as bankers, commission agents, etc. They were in possession of the plantation mortgages and the capitalists of the day owned shares in the mercantile and banking business. They subscribed to the rupee loans from time to time. Even though the Indian officials returned back to their home country their savings were reinvested in India and there was no regular export of British capital into India during this period. Even in 1835 when Banks were opened in Australia, South Africa, Canada,

the Cuba Islands and the Ionian Islands, India did not attract their attention. Edward Blunt, the agent of the Duke of Norfolk who was the chief organiser of this movement for the export of capital did not pay heed to the needs of India.

The business life of the country was in a position to circulate on metallic currency alone and paper currency had not wide circulation at that time. The then productive movement was not helped to any great extent by the financial system. It was the system of advances of the *gomastha* that was mainly responsible for the financing of the cloth weavers. There were few instances when loans were advanced by the Bengal Government to help the landed classes. The long chain which connects the money market with the factory or the farm as in the modern days was not existing at that time. The attempts made by the usurious European money lenders to lend to the native princes or landed zamindars and exploit them were considered a serious danger and legislation was passed in 1797 to protect them from the clutches of the extortionate money lenders. The class of financial middlemen and brokers speculating heavily in the fluctuations in the value of securities did not arise as yet. There was not much concentration of wealth in many individual hands so as to develop the investment of capital and secure the financial integration of society.

Though the Chartered Bank of Bengal was started early in the beginning of the nineteenth century Bombay had no Bank of its own. It was Bengal and Madras alone that had some amount of banking business established by the European Banks of Calcutta (*i.e.*), the Earlier European Banks of which the Bank of Hindustan alone survived the monetary pressure of 1791. It was indeed true that the Bank of Bengal obtained predominance from the early years of its existence and the rates of advances of the Agency Houses and the Bank of Hindustan were based on those of the Bank of Bengal. The interests of the Agency Houses were indirectly looked after by the members of the House of Commons and the House of Lords and these often influenced the Government of England even. The native bankers had necessarily no such support and could hardly compete with them. These did not issue any notes and these shroffs as the indigenous bankers of their cities were then called merely engaged themselves in discounting business. The hundies circulated in great number and the minimum denomination was as low as rupees nine. These shroffs served the purpose of remittance well[17] and a hundi could always be procured from a shroff drawn upon another shroff in the big centres of business.

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(17) *See* T. Bracke.i's Evidence before the Select Committee of the House of Commons, 1832. *See* also the Evidence of J. Ritch'e and Mr. P. Gordcn before the Select Committee and the House of Commons—the March 1831—Third Report pp. 128 & 192.

The great banking houses of Benares had establishments in the chief native cities and a very large business was conducted in remittance. Most of the hundies in the Upper Provinces were drawn from 50 days' sight to 90 or 101 days' sight. The indigenous bankers also acted as the refiners of silver bullion for the Calcutta Mint.(18)

During the years 1800 to 1833 this loosely connected money market at Calcutta could not be rapidly transformed into a financial society as there was no change in the industrial technique and Indian agriculture continued still on the same old lines though some amount of commercialisation of agriculture could be witnessed. The stimulus of British capital and enterprise was lacking. The security of property and person in the interior was not to be had and the stable Government of the East India Company was not yet widely established in all parts of the country. During the closing years of this period there was the terrible wash of the Agency Houses and credit became contracted. There was a run on all the Banks as soon as Palmer & Co. failed in 1819. Since these days the Agency Houses never set their business in proper order. One Mr. Trotter attempted to organise a new type of Agency House but his attempts failed.

(18) *See* the Public General Letter from the Government of India to the Cou t of Directors explaining the reasons for the dismissal of Mr. Foster, the Mint Master for his bad management of the Calcutta Mint affairs and the using of the Mint funds for his own personal use. The transactions with the indigenous bankers who acted as the refiners of silver have to be understood.

During 1833 to 1860 new banks were started in Calcutta, Bombay, Madras and Agra just to fill the void created by the failures of the Agency Houses. The East India Company carried on further wars and the public debt of the Company was increasing slowly. No attempts were made to develop India into one closely integrated economic organism. Until the Public Works Department was started much attention was not paid to the state of the Public Works. Means of internal communication including internal navigation on the rivers were few and not altogether comparatively safe. The comparatively modest beginnings of foreign investments in this country were made during this period. The chief form in which the foreign investments of this period took place was the development of mines, few factories, few farms and few bank accounts. It was lent to the Government and the foreign trade of India which was thrown open to private merchants in 1813 was financed by the foreign merchants. Although the presence of foreign "investment" has been noticed it is not clear, however, that it led to much economic activity and progress. Economically the invasion of Manchester piece-goods and Sheffield iron goods dealt a serious blow to the industries of the Mahomedan centres. The foreign investment did not stimulate or import any marked impetus to the economic life of the people. No new individual arts have been started by the foreign capitalists. Only few scattered instances of foreign

enterprise in the field of industrialised and commercialised agriculture can be assembled. As the joint-stock form of enterprise could not be invoked there was little of wide-spread prosperity. Though there might be some instances of foreign British enterprise in the country yet they have not domesticated the industrial revolution in this country as they have done on the European Continent during this period. There was no vigorous and independent response as a result of the stimulus of foreign enterprise.

Foreign Investment as an Item of National Balance-sheet.

The chief characteristic of the foreign investment during this period is that it has become an important factor in the national balance-sheet of this country. Different estimates have been framed of this income flowing out of this investment. The *London Times* of August 12th, 1857, computed the flow of income in the following manner, £3,000,000 in pensions, interest and salaries, £3,000,000 in family and partnership remittances; the balance is profits and freight upon an Anglo-Indian trade of £55,000,000 a year. Another careful estimate of the *average annual income* from Indian resources puts it at £3 to 4 mil, for roughly the first fifty years of the nineteenth century.(19)

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(19) *See* William Nassau Lees—Land and Labour in India.

It is a well-known fact that the more highly organised the money market is, the more easy it would be to equalise demand and supply so far as money and credit are concerned. The rate of interest would be lowered and there is no surer proof of the perfection of the money market than a steadily lowered rate of interest all throughout the seasons. Again, there should not be a great disparity between the Government credit and the credit of the mercantile classes. It is essential to study the Calcutta money market of this period with regard to the prevailing rate of interest for Government borrowings as well as for those of the private mercantile and industrial borrowers. The rates of interest charged in the money market of Calcutta for the latter class of private borrowers were ranging from eight to twelve per cent. When loans were made for longer periods such as loans to the indigo plantations carrying on industrialised agriculture the higher rate of 12 per cent. was prevalent. The native borrowers were forced to pay 24 to 30 per cent. for whatever accommodation they could get from unorganised credit sources.

So far as the public debt was concerned most serious anxiety was felt for it in 1797 when it amounted to Sicca Rupees 650,000,000. At the initiative of the Governor-General and with the approval of the Hon'ble the Court of Directors the plan of appropriating the surplus resources of Bengal was formulated for the discharge of the

registered debt according to the priority of date. Lord Wellesley had to borrow money at rates from 10 to 12 per cent. for carrying on the war with Mysore in 1797. In 1799 the Company's debt amounted to £12,811,863. In spite of the great and productive resources of India the public debt was not extinguished but it went on increasing at a rapid rate on account of the war with the Maharattas. Though the acquisition of territory and prestige led to the lowering of the rate of interest at which loans were floated in India, the total amount of public debt began to increase and on 30th April, 1805 it was £1,604,967. In 1810 it increased to £35 mil. In 1811 and 1812 the East India Company applied to the British Parliament for a loan. In 1813 the credit of the Company was so low that it discouraged the Government to float a loan. About twelve per cent. discount was attached to the Government bonds at that time. The East India Company was unable to float loans as a result of tight money market arising out of the contraction of credit due to the failure of Palmer & Co. in 1819. The Nepalese War had to be financed from loans taken from the Native Princes of India at five per cent. rate of interest. In 1825 the King of Oudh lent £ 1,000,000. The smaller princes like the Rajah of Nagpore and the Rajah of Benares and the unfortunate Bajee Rao, the Ex-Peishwa also contributed their own quota and about £ 800,000 were thus obtained from these loans which partake

somewhat of the character of forced loans. This shows the unorganised character of the Calcutta money market and reflects a good deal on the low state of credit of the East India Company. In 1822 the debt amounted to £38 mil. and during all these years the Governor-Generals and the Court of Directors boasted of a balance of revenue above expenditure and paid dividends of 8 per cent. During 1833-1852 the expenditure on wars incurred during Lord Hardinge's and Dalhousie's administration increased the debt to a great extent. It was only in 1854 that a rapid reduction of debt was made by the application of a portion of the Company's commercial assets to that object.[20] Fresh debt was contracted during 1854 to 1857 so that the public debt was £59,441,052 before the outbreak of the Mutiny. On April, 1858 the total debt was about £69,473,484.

PUBLIC DEBT.

The chief causes for the increase of the public debt need not be pointed out in detail. Annual deficits, wars, the expensive European element employed in the wars and the costly civil administration formed the chief causes of the indebtedness. The following table illustrates the revenue and the public debt of the Company at the chief periods of its administration of India during 1793 to 1857.

(20) *See* the Appendix to the House of Commons' Report—1852—p. 485.

The Sepoy Mutiny alone added about £ 46 mil. to the public debt of India.

Year.	Revenue.	Public Debt.
	£	£
1792	8,276,650	7,129,934
1814	17,299,245	26,970,786
1829	20,000,000	39,377,880
1850	23,392,594	50,847,564
1857	23,270,000	59,441,052
1858 (April 30th)	31,706,776	69,473,484

While these figures speak of the total debt of India it must be borne in mind that it was raised in India as well as England. As the study of the English portion of the debt falls outside the scope of this thesis no mention would be made of its growth or the rates of interest at which it was contracted. Coming to the Indian Public Debt which formed the major portion of the debt it was composed of registered debt, temporary loans and treasury nôtes on which interest had to be paid while the non-payable portion of the debt was composed of deposits, arrears of salaries and allowances to officials.(21) Though the Company paid 11 and ½ per cent. on its loans in 1800 to 1801 the average rate of interest was 8 and ½ per cent. in 1810. It was little more than 4 and ½ per cent. in 1857.(22)

Now it remains to trace the effects of this public debt. It is indeed a truism to state that scarcity

(21) *See* Dr. P. Banerjee—"Indian Finance in the Days of the Ccmpany"—pp. 116-125.

(22) *See* the Indian Financial Statement in the House of Ccmmons—1850 quoted in the Asiatic Journal.

of money in the money market or the low credit of the East India Company must have raised the rates which they were forced to pay for their debt. Whenever the rate of interest fell it occasioned much distress to the Company's servants who held the bulk of the registered public debt. In 1809-1810 such reduction of the rate of interest was made from 10 to 8 per cent. Again in 1823 the 6 per cent. interest was reduced to 5 per cent. As different loans were floated at different rates the rates paid by the Company varied from 10 to 4 per cent. The Company's debt always occasioned serious convulsions in the Calcutta money market whenever the rates of interest were forced down from 10 to 8 per cent. or 8 to 6 per cent. or 6 to 5 per cent. or 5 to 4 per cent. in 1853-1854. Again when the Company deliberately released £ 10 mil. on one occasion money became a drug on the market and it was withdrawn either into the Native States or sent to England.

In order to encourage the Civilian and the Military servants to subscribe to the loans floated by the Company a portion of the debt was always made remittable debt and the option of receiving the interest or principal in England at a stated rate of exchange was allowed in such cases.[24]

(23) The same was the case when the rate of interest was reduced on the East Indian Annuities or the Home Public Debt of the East India Company. *See* the pamphlet "The Finances of India"—India Reform Tract Series—No. 11—*See* page 29 foot-note.

(24) *See* the 6th Appendix for a classification of the holders of the Company's debt floated in 1841—The circumstances would have been undoubtedly the same throughout this period.

The Government had to draw bills on the Court of Directors for this purpose and without this valuable concession the people could hardly have considered the holding of public debt an advantage. Even the remittance of bullion for the payment of such bills had to take place from this country to England to enable the Court to pay the huge quantity of bills thus drawn against them.

Lest the Treasury notes floated during this period might be considered to be of the same character as the modern treasury bill it must be stated they were loan certificates which were first floated at 8 per cent. and were applicable to all purposes as cash. Later on they were issued at 5 per cent. at various times without any restriction. As they were generally for £ 50 or for higher denominations they could not be of great use to the public as a form of popular remittance. Brunyate tells us that "they are issued in such large amounts as to stand in the way of being used as popular form of currency." They bore interest and were inconvertible and consequently some discount was attached to them. In popular parlance they were often talked of as notes. The Bank of Bengal was mainly started to secure the gradual withdrawal of these bills and issue its own notes in lieu of such withdrawn Treasury notes.

There was indeed no recognised place where the stocks and shares could be transferred and no highly developed Stock Exchange organisation existed even

at Calcutta. The Bank of Bengal had to set aside a room in October, 1826, for the sale and purchase of public securities between two and three P. M. and until 1861 there was no real market for Government securities. We have seen elsewhere how the Bank of Bombay could not sell its Government securities without the fear of a loss. It was the disinclination in this respect that made it often depend on Government help.

THE NEWSPAPER REPORT OF THE MONEY MARKET.

As the following report is usually considered as the *first general newspaper representation* of the Calcutta money market[25] after its proper development it is worth while quoting the whole in its entire form.

The Bengal Harkaru.........July 12th, 1839.

STATE OF THE MONEY MARKET.

Calcutta, July 12th, 1839. The despatch per *Walter Witch* will be closed to-night and does not carry remittances to a very large amount and we would be near the mark by saying six and half lakhs. Exchange at which the negotiations were affected was 2*s*. 2*d*. per Company's rupee and this rate we may safely calculate upon as the ruling rate for the coming season.

(25) The Calcutta Exchange Prices Current was a financial paper issued by the Exchange Committee of Calcutta during the year 1820-1858.

Government securities remain without[26] notice. Some stock paper changed hands at Rs. 11 per premium ; this was affected independent of baser quotations.

Bank of Bengal—The payment of the advertised dividend (8 per cent. per annum) continues. We have heard of no sales in its stock which is quoted at Rs. 1,900 or 2,000 premium.

Rates of discount—Approved private bills and notes not having more than three months to run discount 6 per cent. per annum. Government and salary bills ditto 4 per cent. Loans and accounts of credit for not exceeding three months' time on deposit of company's paper 5 per cent. On metals, indigo and opium 5 and ½ per cent. and on other goods 6 and ½ ditto. The Mirzapore branch is effecting discounts in Calcutta at Re. 1 or Re. 1. 6 *as.* per cent.

Union Bank—The shares continue to command much attention and inquiry ; they are readily bought at quotation from Rs. 320 to 330 per premium. The Mirzapore branch is transacting business with Calcutta at 3·2 per cent. on good bills at 91 days' sight.

Agra Bank shares as before. The Agra Bank draws on London at the following rates at 6 ms.

(26) Thus there was not much of sub-division of labour. The stock market, the money market and the exchange market reports were rolled into one and published in the same report.

sight per company's [27] *re*-2*s*. 0*d*., ½ at three months' sight, 2*s*. 0*d*. at sight for sums not exceeding £100. 1*s*. 11½*d*.

Bonded Warehouse—Share Co.'s *re* 500 without inquiry—quotations are 10 to 20 discount.

Calcutta Docking Co.—Share Co.'s Rs. 1,000 about Rs. 100 premium. Steam Tug Association—Shares Co.'s Rs. 1,000 reported at Rs. 100 to 150 premium.

Assam Tea Co.—Share Co.'s *re*. 500 at par—Bengal Salt Co.-Share Co.'s Rs. 1,000—one per cent. of capital paid up upon which the committee is experimenting.

Money—Our banks are well-stocked and generally not scarce. Interest 8 to 9 per cent.—The im portations of bullion have been large but not much operated.

Bengal Harkaru.

It is quite apparent from the above report that there was no organised market even at Calcutta at that time which was the chief centre of the Government of India. Even now the situation

(27) The disparity between the three months' rate and the 6 months' rate was only ½*d*. It was not so in the earlier days when the difference was not less than 1*d*. The two reasons for the narrowing of the difference were greater competition and the lessening of the risks arising out of the better means of navigation. It must not be forgotten that improvements in the London Money Market were also made and the discount rate ruling in London was also lower than in the earlier days. According to the principle of foreign exchange it is the London discount rate that ought to determine this difference.

is only a little better, and after all there is only a mere semblance of an organised money market at all the presidency centres. Most of the essential features which are generally considered as the prime requisites of a well-developed money market must have been entirely non-existing in the earlier times. There was no uniform and steady rate of interest for call or time deposits. The bank rate must have had little or no influence over the bazar rates. Even now this situation remains the same as before. The Imperial Bank's rate of discount has no influence over the bazar rate for quite a great part of the year. It does not vary with the trade requirements of the country. The withdrawal of the Government funds leads to a lowering of the cash percentage of the Imperial Bank and a prompt raising of the bank rate immediately follows.

When the points of contact in these modern days between the European money market and the bazar are so few it need not be stated that in the older days things would have been far different in this conservative country. Whatever might be the present-day functions of these shroffs and the indigenous bankers it is quite clear that their functions have become restricted in almost all directions. The old duty as refiners of silver has disappeared. The remittance function still remains but there are nowadays several other methods thrown open to the people with the result that even here their duties have become restricted. Money-lending still

remains and the commission line for the main exporters or importers is another occupation of theirs. But even here the co-operative stores are tending to become formidable rivals. This has been their evolution in the nineteenth century. On the other hand the Exchange Banks and the Imperial Bank which is the lineal descendant of the Presidency Banks have added more and more functions than in the immediate past.

THE BOMBAY MONEY MARKET.

Coming to the Bombay Money Market, the shroffs and the indigenous bankers who were the representatives of the Surat firms existed. But the European Mercantile Houses were very prominent from the beginning. The services of the indigenous bankers of Bombay have been outlined elsewhere. The European Banker-Merchants also used to help the East India Company. During 1801 and 1804 these Bombay Merchants gave ready money to the Bombay Government. Seven mercantile houses agreed to purchase 85,000 bales of the Company's cotton at Rs 10. per bale, cash down. This was called "the Northern Loan of 1802." Arther Wellesley, the brother of Lord Wellesley who commanded the British Forces in the Maharatta Wars of this time speaks of their ungrudging help and remarks that "Assaye could not have been fought without them." Thus there existed intimate relationship between the merchant bankers and the Government of the day.

So late as in 1837 the number of the European mercantile houses in India and the Far East was exceedingly limited when compared with the present-day number of foreign firms which control the foreign trade of this country.

The following table shows the number of firms in the important cities in the year 1837.

Names of the Cities.	Number of firms.
Calcutta	62
Bombay ..	17
Singapore	15
Madras	10
Penang	2
Canton	11

The existence of the American Houses and the Parsee merchant Houses should be also taken into consideration.[28] So far as the American trade was concerned letters of credit were used. Messrs. Baring's House generally undertook to honour bills drawn on them to a certain amount. Roughly 200 to 300 thousand pounds sterling were thus raised by them in the course of an year. When the American traders bought Indian exports the latter drew bills on the aforesaid American Houses.[29]

Commissions paid for Banking Services.

A few words must be stated as regards the commission paid for the purchase, selling or negotiation of bills of exchange. One per cent. commission was charged in Calcutta, Bombay and Madras for

(28) *See* Crawford's "Sketch on the Commercial Resources, etc."

(29) *See* T. Bracken's Evidence before the Select Committee of H. of C.

this service. On making advances or procuring loans for commercial purposes the commission paid was two and half per cent. in Calcutta, two per cent. in Bombay and Madras. On guaranteeing bills, bonds and other engagements and on becoming security the commission paid was two and half per cent. in Calcutta, Bombay and Madras. The commission paid in letters of credit was one per cent. in Calcutta and two half per cent. in Bombay as well as Madras.

The majority of the bills were of the D/P character (*i.e.*) the documents were realised on payment alone. The hypothecated goods to the Court of Directors were released on payment of the bills to the parties making the payment. The bills were all documentary and no clean bills were purchased by the Government. The bills of lading and other shipping documents were attached to the bills drawn in favour of the Court of Directors and it was such bills that were bought for two-thirds of the value of the goods by the Indian Government. When the Court of Directors sold bills on the Indian Government they were clean bills of the highest standing which were available in the market and such bills were sold against Calcutta, Bombay and Madras Governments which had to honour them out of the territorial revenue. When Indian revenue was remitted to England through Chinese trade similar documentary bills against hypothecated goods were created. The

Canton establishment drew bills on the Indian Treasury for money received of merchants in Canton. This money was used in advancing for private bills on England the cargoes being hypothecated to the Company as security in the same way as was done in India. It was by these major methods that territorial revenue was sent to England from India. Advances to the Public Boards of His Majesty's Government repayable in England constituted a minor method of remittance available at that time.[30]

Bullion from Bengal and Madras constituted another source or means of available remittance.

(30) A glance at the following table shows the means of remittance pursued during the following years 1829 to 1831.

See the Third Report of the House of Commons, 1831—Remittance on account of territory under sec. 55th of the 53 George 3, c. 155.

Means of remittance.	1828-1829	1829-30	1830-31
(*a*) Bills drawn by the Court on India ..	£3285	£2643	£6634
(*b*) Bills drawn from India principally on Public Boards for supplies to His Majesty's services in India ..	61728	54728	37891
(c) Bills drawn from St. Helena ..	....	....	....
(*d*) Received from His Majesty's Government in repayment of advance in India not covered by bills of exchange	8597	nil	nil
(*e*) Bullion from Bengal & Madras ..	627765	nil	525288
(*f*) Bullion from China	nil	nil	102335
(*g*) Advances made in India on the security of the goods of individuals repaid here at 1*s*. 11*d*. per Sicca Rupee..	nil	nil	200522

CHAPTER V.

The Nature, Character and Financing of Foreign Trade.

Nature of the breaches in the monopoly of trade.—The Early beginnings of trade relations. —Subordinate Agencies.—The Early rival Companies.—The first Breach in the trade monopoly, 1791.—Growth of trade between 1791 and 1813.—Renewal of the Charter in 1813.—The Establishment of commercial freedom in 1813 and its results.—The closing of the commercial residencies.—The passing of the 1833 Charter of the East India Company.—Internal measures of reform leading towards expansion of trade. —Consolidation period, 1834 to 1857.—Advent of the English capital.—The financing of foreign trade.—The financing of new Agency Houses. —The English capitalists and their Indian departments.—The specialising foreign exchange Banks.

Breaches in the Monopoly of Foreign Trade.

Before discussing the part the Banks played in the development and expansion of foreign trade of this country during this period attention must be drawn to the nature and character of our foreign trade. It is acknowledged by all students of history

that the foreign trade of this country was a coveted monopoly of the East India Company until 1813. There were very few traders who utilised the concession granted in 1793 in the matter of conducting trade with this country. The magnitude of trade under this heading was indeed very small. Prior to this year, *viz.*, 1793 "free merchants" were allowed to settle but they could never undertake to thwart the trade monopoly of the East India Company. The Commanders and officers of the ships were allowed to conduct trade to a limited extent. It might be that they seldom respected this limit. A few of the "privateers" defied the power of the East India Company and conducted trade surreptitiously. The foreign traders were indeed given full facilities to conduct trade with this country. Notwithstanding these breaches in the monopoly of foreign trade the broad fact, however, remains that the East India Company monopolised the foreign trade of the country. Even when the trading privilege was granted to the English merchants during the years 1813 and 1833 the attempt to make London, the centre of enrtepôt trade, was not forgotten. London and the few English ports were to be the Emporium of the Eastern Goods so that Europe could secure the supplies through these centres alone. With the decay of the political power of the foreign nations their trade naturally languished and the English nation had by virtue of its political ascendancy the opportunity to

establish close trading relations and acquire the bulk of the foreign trade of the country. An attempt would be made in this chapter to explain clearly the nature and character of the traders who carried on the foreign trade of this country during this period. The gradual lifting of the monopoly by successive stages would be indicated before attention would be drawn to the method of financing the foreign trade of the country.

THE EARLY BEGINNINGS OF TRADE RELATIONS.

Though started in 1599 the East India Company received the royal charter of incorporation on 30th December, 1600, under the name of "the Governor and the Company of Merchants of London trading with the East Indies." The object was trade.[1] The East India Company purchased such goods as would have a ready "vent" among the Indian people and treasure was sent to purchase the rich produce of the Orient. From the very beginning

(1) It was not so much for the products of India but for the famous spices of India and the East, that the Arabs, and the different European nations visited India and the other countries of the East. In the middle Ages a single pound of ginger would buy a sheep. A pound of cloves was seven times as valuable, two pounds of mace were worth a cow. Pepper was worth its weight in silver. Pepper ranked as a commodity of standard value. Spices were the luxuries and badges of caste and were used extensively as preservatives of meat. The cold storage process soon destroyed the value of the spices. The cool chamber fended off decay and gathered all climates and zones into the markets of the West. The refrigeration has completely destroyed the use of spices in this direction. *See* D. C. Pettie.—"The Cargoes and the Harvests" p. 14. *See also* Sir William Foster—Article on "English Commerce with India," Journal of the Royal Society of Arts—April 19, 1918.

the trade was purely one-sided to a great extent. The English had only to buy and there was little to be sold to the "gentiles." Bullion was sent to India by the East India Company for this purpose.(2) In spite of many adverse circumstances the English East India Company generally maintained its monopoly of trade intact for a period of roughly two hundred years. The lingering medieval prejudice against the export of bullion, a fallacious theory of foreign trade, the fierce combats with the Portuguese, the Dutch and the French, the infringing of the monopoly by the interlopers, the depredations of the Courteen's Association,(3) the Civil War at home, the ministerial exactions(4)

(2) The East India Company was charged by an anonymous writer in his pamphlet "The Trade of the Indies" with the crime of draining away money out of the country annually to the extent of £80,000 which was indeed an exaggeration for the Company only exported in all their twelve voyages about £133,000. For the reply to this pamphlet—*see* Sir Dudley Digges' Document—quoted from Milburn "Oriental Commerce" Vol. I, pp. XIV etc.

(3) Sir William Courteen and his Associates were granted privileges in 1635 by King Charles I to carry on trade for five years with Goa, Malabar, China and Japan.

(4) In 1693 the New Company had to lend a sum of £2,000,000 at the rate of eight per cent. In 1703 the United Company had to lend £1,200,000 without taking any interest. In 1732 additional sums were exacted. From 1767 the Company had to pay annually to the Exchequer £400,000 in return for which in 1769 a grant of the territorial revenues of India was made to the Company for five years. In 1781 the payment of £400,000 which was discontinued was again exacted. In 1793 it was arranged that £500,000 were to be given annually to the nation as a tribute from its Indian Dominions. *See* also the Report of the Select Committee of the House of Commons, 1832 to 1833, for a detailed statement of similar payments made between 1768 and 1812.

and the wayward whims of the English Sovereigns[5] embarassed the position of the East India Company for about a century but it continued its trading activities in spite of these troubles, and discouragements.

SUBORDINATE AGENCIES.

Permission to raise factories was eagerly sought after and from Surat in the West and Masulipatam in the East it began to extend its commercial ties and subordinate agencies were established at Calicut, Ahmedabad, Berhampore, Petapoli, Madras, Hariharpur, Balasore, Hooghly, Patna, Cossimbazar, Dacca, Malda, Ajmere and Agra. The military-commercial policies of the Dutch and the Portuguese were sacrificed at the advice of Sir T. Roe.[6] Quiet and unaggressive trade was its ideal till 1683. So long as this was its ideal it met with astonishing success. Its stock rose in price and stood at £130 in 1669, £245 in 1677, £280 in 1681 and £360 in 1683. Dividends between the years 1659 and 1691 averaged roughly 25 per cent. per annum. It was in 1687 that the East India Company embarked upon " establishing a Politie of Civil and Military Power and create

(5) King James the First issued a licence in 1604 to Sir E. Michelbourne and others to trade with Cathay, China, Japan, Corea and Cambaiya, in violation of the Company's Charter. In 1607 Penkewell and others were granted the privilege to trade with China but nothing resulted out of this licence. Charles the First and the Protector Cromwell similarly infringed the Company's monopoly by granting *permission to Associations or declaring trade free for all.*

(6) Sir Thomas Roe's letter to the Directors of the East India Company quoted by Purchas's Pilgrims I, 1111, c. 17, p. 590.

and secure a large revenue as may be the foundation of a large well-grounded English dominion in India for all time to come." This spirited policy of conquest soon roused the Mogul Emperor, Aurangazeb to decisive action and though the English were defeated on land their Navy saved them from annihilation and in 1692 the territories in Bengal were restored to the English on the payment of a fine of £17,000.

THE EARLY RIVAL COMPANIES.

In 1693, the Scottish Parliament granted permission to an Association to trade with Africa and the Indies but this Company on account of its occupation of the Isthmus of Darien soon came into conflict with the Spaniards and unprotected by the English Government it soon fell a prey to Spanish hostility and disease. In 1698 the General Society was incorporated under the aegis of Montagu, the Chancellor of the Exchequer and the right to trade with India was granted to it. As a result of the resolution of the House of Commons passed in 1694 some private adventurers started to India for trading purposes. The New Company, which was started in 1698 in opposition to the Old London Company could not, however, succeed as it had very little capital of its own for the whole of it was loaned to the monarch. The rivalry of the London Company and their inexperienced servants also disabled the New Company from making any headway against the Old London Company. They soon found out

much to their chagrin that two sellers of European commodities would lower their value and two buyers would enhance the value of the Indian commodities. They soon came to terms with each other and " the United Company of the Merchants of England trading to the East Indies " began to conduct the trading business till it was swept away at the end of the Great Sepoy Mutiny in 1857. Its dominions and revenues had to be ceded to the British Crown.

Neither the rivalry of the Ostend Trading Company nor the political revolutions happening in India during the years 1746 to 1757 nor the Parliamentary exactions as payments out of the territorial revenues of the East India Company could obscure the commercial aim—the principal object for which the East India Company was formed. The question of " investment" was always the uppermost idea. " Surplus revenue " and "remittance home" were the only all-absorbing ideas of the East India Company. Warren Hastings, the first Governor-General who was opposed to the trading monopoly considered that the interests of the Company as rulers could not be reconciled with their trading monopoly. He wrote strongly against this form of exploitation that it deserves being quoted in full. " We have not been able so far as to change our ideas with our situation as to quit the contracted view of monopolies for objects tending to promote the prosperity of these territories from which we derive so valuable a tribute. It is of less

consequence considered as a natural concern that the investment should be procured cheap than that the commerce of the country should flourish and I insist upon it as a fixed and incontrovertible principle that commerce can flourish when it is equal and free." But the Directors of the East India Company always strove to transfer the annual surplus of revenue from India to England by purchasing commodities for export from India into England. As the dividends of the Company were dependent on it, they strove to increase it in spite of the terrible inroads made by the disastrous wars in India which it had to wage against Tippu, the Maharattas, the Sikhs, the Afgans, the Pathans, and the Burmese. In spite of its becoming a Government Corporation commercial considerations were not sacrificed till the Parliament abolished the trading privileges and the East India Company was unwillingly forced to confine itself to the task of governing the country. The slough of commercialism was cast off in 1813. When the last vestiges of commercial character of the Company were sacrificed in 1833 it began in right earnest to improve the administrative machine and discharge the duties and responsibilities which the Governors owe to the governed. The dual role of merchant and political ruler productive of so many evils, misunderstandings and difficulties had at last to be given up. As Lord Palmerston put it graphically the East India Company by losing its commercial

privileges in 1833 became a "phantom of its original body." It henceforward considered itself as a "political instrument." But this severance of the commercial privileges from the hands of the East India Company proved a benefit to the general trade of India and it did not injure in any way the East India Company in the exercise of its Sovereign power.

The First Breach in the Trade Monopoly.

The first regular breach in the trade monopoly of the East India Company was made in 1791. But previous to this year a few private merchants carried on trade surreptitiously as privateers but without the powerful support of any forts or territorial possessions they must have fared miserably.[7] For quite a long time the trade monopoly was not broken on the ground that "the Indian people were too poor, their wants few and the standard of

(7) Thomas Pitt, the grandfather of the Earl of Chatham, was one of such famous privateers "or contumacious Englishmen" who made a large fortune in India and returned to England and received a large estate and the pocket borough of old Sarum. He later became the Governor of Madras and his name is still remembered in connection with the famous diamond which bears his name. Many of the "interlopers" contracted friendship with the Company's officials and carried on trade with India by paying the Customs duties from which the Company was exempted. The Mogul officials allowed them to trade freely as they were ready to pay customs fees. Hedges, the Agent and Governor of Bengal could do nothing against the powerful support of the Mogul Viceroy of Bengal.

The case of Thomas Sandys who strove to secure a judicial decree against the monopoly of the East India Company in 1683 need not be referred to in this connection. The 1686 Charter, therefore, affirmed the monopoly of the trade once again.

living simple." [8] Such being the case it was considered impossible to extend business even if private merchants were to be granted access to this country to trade with the people direct. It is indeed true that the East India Company's servants *i.e.*, the English factors and mariners were given privileges styled as "indulgences" to trade with the Asiatic countries and carry on coasting trade without any interference with the regular trade of the East India Company with Europe. [9] But these had to face the competition of the English

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(8) *See* the statement of Colonel Munro before the Parliamentary Committee of 1810.

(9) Though this private trade was allowed restrictions were placed in 1604 to trade in spices and a Royal Proclamation of 1609 gave the complete monopoly of imported pepper from the East to the East India Company. Efforts were made to suppress trade on the part of the crews of the ships but they were futile when the commanders and captains of the ships were equally guilty. In 1631 the list of goods that could be exported and imported by them was published but private merchants cared little for Royal Proclamations, or prohibitory orders or stringent punishments and the Company failed to secure a total monopoly of trade with this country. From 1785 to 1793 over 6 mils. worth of goods were sold on behalf of the Company's officials. Even after 1803 the imports of the officers did not depreciate materially in value for several years. Primage and dunnage were the other facilities thrown open to the ship's captains beyond the 56 and ½ tons allowed to them to be carried on the ship. The Company's officers were paid low salaries and consequently were allowed to carry on private trade. Salt, betelnut, tobacco, were the chief articles of internal trade and they began to trade in these articles the monopolies of which had been the grievance of Mir Kasim Ali. Lord Cornwallis strove to check this by paying liberal salaries but till the Covenanted service was instituted in 1793 by the Charter Act the officers were allowed to trade privately or to receive a commission for collecting revenues in addition to this pay. In 1812 there was so remarkable an improvement in the morale of the Company's officers that Lord Minto, the Governor-General says, "A more and highly honourable administration does not exist than that of the East India Company in India."

free merchants in the matter of coasting trade.(10) The latter had to suffer at the hands of the East India Company's competition which employed its ships specially in the off season in the coasting trade in the Bay of Bengal. However limited in volume it might be there existed besides the trade of the East India Company that of the private trade and the privileged trade. The interlopers also challenged the monopoly of the Company. Foreign nations were allowed to carry on trade and they did conduct trade during this period.(11)

(10) The Court of Directors permitted the free merchants to settle in Bengal in 1713. Since that time they began to increase in number. They carried on trade between India and the neighbouring countries and never interfered with the regular trade of the East India Company. They often applied to the Company to secure passes without which they would be reduced to "the condition of foreigner or to the meanest black fellow." *See* Long-Selections from the Calcutta Gazette.

(11) For an account of the Danish and the French trade with India *see* Milburn's Oriental Commerce and the Fourth Report of the House of Commons, 1812. *See* also the Select Committee of the Court of Directors—1793, p. 12.

The foreigners also traded with the British Settlements in India but their trade was beneficial to the country as it imported treasure and such articles as wines, spirits, naval stores and metals. It did not encroach on the trade of the East India Company or its commanders and officers.

The Dutch after their ignominious defeat by Colonel Forde in 1759 made no more attempts to gain political mastery in Bengal. They continued to trade chiefly in saltpetre and they had often to resent the interference of the *gomasthas* of the English Companies in the matter of purchasing goods. They remained on friendly terms with the English.

Throughout the 18th century the French people were the "national enemies" of England and they fought with each other in India. The French trade increased in the first quarter of the nineteenth century. They purchased indigo cheaper in Calcutta than they could get from Great Britain. French houses were established in Calcutta and unlike Americans and Armenians they did not deal directly with the people of the country. The French traders imported a good deal of wine.

Such was the situation of the trade when for the first time the privilege to trade with India was granted to the private traders of Britain by the British Parliament. The chief reason why this concession was shown to the private traders has not been stated clearly by the earlier writers on this subject. British subjects owned American and foreign ships and usually sent them to Bengal to fetch its produce and sell the produce in the European markets without reaching London and paying any customs duties. The amount of this trade was calculated roughly at one million four hundred thousand pounds. About 30 ships with a tonnage of 13,000 were engaged in this trade.[12] With a

The Germans were opposed by the English when they tried to establish a factory in Bengal and in 1757 the Court of Directors asked the British Council not to have any commercial dealings with German ships.

The Armenian merchants traded extensively with Asia. They imported raw silk and the goods of the Coast of Coromandal were fetched mainly by the Armenian merchants. The Court of Directors strove to increase their trade and always encouraged their settlement in Calcutta.

The Danes with Serampore as their headquarters conducted a thriving trade by means of their shipping. They did not settle in the interior. The Danes tried to maintain trading relations with the French as well as the English people and often their aims were misunderstood by the English on account of their inveterate prejudice against the French.

The Americans continued their trading business and by 1832 they were sending roughly 20 ships per year to Calcutta alone. They generally brought drawn bills, bullion or American manufactures or British manufactures and took indigo, saltpetre and silks. They employed native brokers to sell their goods and purchase goods on their behalf. Ramchand Mitter and Ram Lall Dey became rich by this method of agency.

(12). *See* Arthur Wellesley's Memorandum on Bengal, pp. 773 to 785, Owen's Selections of Wellesley's Despatches.

view to obtain control over the trade by making London the redistributing centre.of Asiatic produce and to levy duty on the European consumption of Indian articles the East India Company was forced in 1793 to give facility to carry 3,000 tons of goods to the private traders to be increased if necessary.(13) The export and manufacturing towns such as Liverpool, Bristol, Glasgow, Manchaster, Munich, Paisley and Exeter protested against the Company's monopoly and petitioned to the British Parliament for the granting of the right of free trade with the East Indies to the British public. It was to pacify the severe opposition of these merchants that the first breach in the trade monopoly (14) of the East India Company was affected in 1793 by the Charter Act.

(13) Since the passing of the East India Act of 1784 by Mr. Pitt the East India Company devoted a great part of their attention to commerce and during the latter half of that period of the Charter of 1783 the Company's commerce was stimulated to a great extent by the pecuniary concessions granted to the East India Co. by the R. Act of 1784. The growth of the Company's trade soon roused the jealousy of the people. In 1788 some of the cotton merchants and manufacturers had seized a vague pretext to make a petition against the Company. They petitioned to the effect that the commercial energy and interests of the nation suffered greatly by the Company's importation of cotton and cotton piece-goods from India and begged the Legislature to provide against the interests of the country being thus sacrificed for the benefit of a small trading body. But when the time came for renewing the charter in 1793 their protests had the necessary effect.

(14) The East India Company became a joint-stock company in 1657 and had to grant admission to members who were willing to purchase its stock in the open market and though in theory a monopoly, in practice it was not so. There was a final resuscitation of the monopoly in 1657 as Cromwell was unable to protect the ships of British merchants engaged in trade on the seas from the Angrian pirates, Royalist privateers and the Spanish, French and the Dutch freebooters. This resuscitated the Company's monopoly in 1657.

THE GROWTH OF TRADE.

By this Act the British public were allowed to export and import goods with certain exceptions in the Company's ships. This trade which was carried on by the British merchants came to be known as the privileged trade. The East India Company had to provide 3000 tons of shipping annually for private traders unconnected with the Company. Military and naval stores and copper were not to be exported to India. So also the private traders could not export from India calicoes, muslins and other piece-goods without a licence from the East India Company. It was true that the Company had to allot increasing space in their ships for private trade and commerce began to develop slowly. The tonnage occupied with Bengal private goods reached over 6000 tons in 1798-1799 and over 7000 in 1799-1800. The following table shows the gradual growth during this period.

Tons.

Year.	1794-1795	1795-96	1796-97	1797-98	1798-99	1799-1800
Tonnage ..	2473	5346	4657	3787	6223	7748

Until 1803 the East India Company had to provide increased tonnage over and above the statutory 3000 tons for the private traders. As a result of the Napoleonic Wars there was a falling on in the demand for Indian goods and private trade also began to decline. Similarly, the goods sent from London began to increase and the following

table gives the reader an idea of the slow increase of the imports into India during this period.(15)

From London.	Season.	From India to London.
919	1793-1794	..
40	1794-1795	2424
32	1795-1796	6817
252	1796-1797	4190
0	1797-1798	3727
374	1798-1799	14679
196	1799-1800	9782
130	1800-1801	14348 exclusive of rice.
536	1801-1802	14842
1872	1802-1803	14717
820	1803-1804	6866
1882	1804-1805	4022
1174	1805-1806	7062
773	1806-1807	6818
0	1807-1808	3819

It was not the private trade of the British people alone that increased. In 1797 the relaxation of the British navigation laws was permitted. Americans and the people of other countries began to trade with India. Their ships began to resort in larger numbers to carry on trade directly with India. President Dundas himself recognised the necessity of authorising the Government in India to license India-built shipping so as to enable the increasing transport of the goods to India and from India to be sent to London which could be made

(15) *See* Owen's Digest of Wellesley's Despatches. *See* special supplement on private trade. *See also* Earl of Mornington's letter to the Hon'ble the Court of Directors, p. 379, Vol. II.

the entrepot trade centre for Asiatic commerce.(16) As agitation developed against the harassing conditions under which the East India Company carried out its statuable obligation of providing tonnage of 3000 the East India Company had to provide extra shipping of a cheaper type at lower rates.(17) Lord Wellesley had to hire and re-let ships to private merchants and he also allowed them to settle their own terms about rates of freight.(18)

This method of securing the Bengal Chartered ships had to be given up as a result of the protest on the part of the London shipbuilders and the infant ship-building industry which arose during the famine time of 1770 as an occupation for the unemployed had to go a-begging. (19) This yielding to the

(16) *See* Macpherson's Commerce with India, p. 426.

(17) Letter of Dundas to the Shipbuilders of London, written on 1st July, 1797, quoted in Wellesley's Despatches and Minutes, 116-118.

(18) The freight rates on the Company's ships were £15 per pipe of wine and £30 and 10*s*. per ton for all goods laden on the regular ships of the season. They were reduced in 1795 to £7-10*s*.-0*d*. per ton outwards and £22-10*s*. per ton homewards.

(19) The following table shows the private tonnage shipped to London from Calcutta :—

Year.		No. of ships.	Tonnage.	Regular ships.	Indiamen Tonnage.	Bengal No.	Chartered ships Tonnage.
1796-1797	..	28	3794	9	43	..	..
1797-1798	..	36	3442	18	1107	..	..
1798-1799	..	18	5975	9	137	6	5498
1799-1800	..	35	7749	16	291	8	5970
1800-1801	..	25	8067	7	148	10	7369
1801-1802	..	59	27680	10	353	23	14837

See p. 145—Vol. 5—Minutes of the Marquis of Wellesley.

vested interests of the London ship-building industry greatly hampered the development of the Indian ship-building industry. But the system of pre-emption of produce enforced by the Company on the ryot had also the effect of handicapping the ability of the private traders to secure Indian produce. Thirdly, the neutral nations could carry on trade with India and several Americans were engaged in trade with India. Foreign ships charged low rates of freight. They were economically managed and completed their journey within a short time due to their extraordinary ability. American ships usually took about four months to reach Calcutta and within a month they not only despatched their imports but purchased the export cargo and left Calcutta. Hence the Portuguese and the American ships carried on lucrative trade with the Continent of Europe and were able to defeat the intentions of the English private traders who sought to make London the emporium or universal market for Asiatic prodnce and manufactures. Although according to the trade treaty with America the American ships could carry on trade direct with India still the American shippers not only generally touched American ports but proceeded directly to Europe to sell the produce.

Although these were the difficulties under which British private merchants were labouring and could not expand their trade, the total import trade as well as the exports from Calcutta alone increased

to a great extent. The increasing volume of the import trade into India can be understood by a reference to the following table. [20]

Year.	China.	Maldive Islands.	Cape of Good Hope.	New South Wales.
1796-1797 ..	5,52,132	32,806	15,968	84,052
1797-1798 ..	6,43,097	8,869	40,321	48,821
1798-1799 ..	7,45,292	45,186	23,936	47,909
1799-1800 ..	14,70,525	53,677	28,573	98,029
1800-1801 ..	24,30,008	70,399	10,500	20,011
1801-1802 ..	14,65,233	..	..	48,527

Year of imports.			London.	Foreign, Europe and America.
1797-98	..	..	15,34,219	19,86,142
1798-99	..	..	17,43,314	23,78,749
1799-1800	..	..	47,37,462	88,94,942
1800-01	..	..	44,72,502	69,67,683
1801-02	..	..	39,75,669	56,77,152

The costly war with Tippu and the policy of annexation meant very heavy military expenditure. In the words of Lord Cornwallis who assumed the role of Governor-General a second time in July, 1805, "the preceding years called annually for reinforcements of men and remittance of money which yielded little other profit than brilliant gazettes. We literally have not the means of carrying the ordinary business of Government." Lord Cornwallis and Barlow pursued a policy which has been epigrammatically described by Metcalfe "as disgrace without compensation, treaties without security and peace without tranquility." During Lord Minto's Governor-

(20) Minutes of Marquis of Wellesley, Vol. 5, p. 145.

Generalship the relations with Persia which became strained on account of Franco-Russian attempts to invade India were adjusted afresh by the embassy of John Malcolm. Though no further acquisition of territory on the Indian mainland took place during these years yet it was an era of expansion and Java, the Spice Islands and other Dutch possessions were attacked and captured. In 1814 the Dutch regained them with the exception of the Cape of Good Hope. In spite of these pre-occupations trade was carried on by the East India Company and the British merchants' private trade could not compete with the formidable rival. The price fixed for the tonnage was also high and although it could be fetched for £3 out and £3 per ton home the East India Company charged £15 out and £15 per ton home. The Warehousing Act also levied high duties on Indian imports into London. As a result of these unfavourable circumstances the British private trade felt unable to cope with the situation.(21) Foreign and clandestine trade existed during the period. Many of the English private traders had to sell goods to foreign agents employed in the port of Calcutta. The annual export of the East India Company amounted to roughly a million sterling during the five years ending 1811.(22)

(21) *See* the Report of the Committee of Correspondence, 1813, p. 21.

(22) *See* the Evidence of Mr. Graham, a member of the Council of Lord Cornwallis and Wellesley before the Committee of the whole house, 1813, p. 39.

Renewal of the Charter.

The question of the renewal of the Charter was discussed during the years 1810-1813. The Company's trade monopoly was once more keenly contested. Not only did the towns, and counties address the Legislature but even small bodies of merchants, manufacturers, moderate tradesmen and work-people submitted several petitions against the trade monopoly of the East India Company. They not only anticipated unprecedented advantages by trading with the East Indies but they submitted that "freedom of trade was the inherent and undoubted birthright of every British subject." When the right of free trade was granted to the foreign traders the British people considered the denying of the self-same privileges to them as totally inexplicable. The Missionaries also clamoured vehemently against the East India Company which refused to encourage the introduction of Christianity and education into British India till 1813.

The East India Company and the London Shipbuilders made a vigorous defence of their vested interests. Most of the proconsuls like Warren Hastings, Lord Teignmouth, Munro and Malcolm were opposed to any changes and upheld the Company's monopoly. Lord Wellesley who was opposed to the closing of the Company's monopoly wrote so early as in 1800 in the following language. In his letter to the Court of Directors he wrote that "the long establishment of the Company's factories in

India, the skill of its servants regularly educated for the conducting of the factories and the habitual confidence of the manufacturers in the good faith and the integrity of the Company's servants have secured to the Company so decided a superiority in the provision of the most valuable articles of piece-goods and raw silk that no private merchant by any practicable reduction of freight can be enabled to rival the Company in their important articles of investment."

But the Court of Directors took a fairer view of the situation. So long ago as in 1800 the Right Hon'ble Dundas clearly realised that the export trade of India was far greater than what the resources of the East India Company could afford to purchase and that it would be better to allow the English private traders to send this to London for redistribution in Europe. As trade with India was open to other countries or neutral nations such as the Americans these would absorb the portion of trade thus adding to the "wealth, capital and navigation of foreign countries."(23) The following table shows that the export and import trade of private traders was very little in comparison with the Dutch, the American and the Portuguese traders in trade with Calcutta.(24)

(23) *See* the Letter of George Udny, Member of the Bengal Council to Lord Wellesley, the G.-G. of India, Calcutta, 15th Sep., 1800, Vol. 5, pp. 133-137.

(24) *See* Lord Wellesley's Letter to the Court of Directors—30th Sep., 1800.

Year.		Average of Import (Sicca Rs.).	Exports (Sicca Rs.).
1799-1800 ..	..	81,81,005	71,30,372
1796-1800 ..	..	63,98,678	43,92,768

The British private trade amounted to only

1799-1800 ..	..	£47,87,101	£67,66,649

It was expected that if this system were to continue " the Americans bid fair to exclude us from the market for sugar in Europe. It is impossible that British merchants can under the present order of things cope successfully with such alert rivals. Every consideration of benefit to the British individuals and of advantage to the British nation calls for speedy measures of reform respecting the trade of India to which the scarcity of English shipping available here this season seems now more particularly to write." Since these lines were written the American and foreign nations' trade began to expand. It was recognised that if the monopoly were to continue it would mean the total loss of trade to the advantage of the foreign nations alone. Hence free trade was advocated with India and even the reduction of heavy import duties on Indian produce was also suggested. India-built ships were to be employed in the trade.

Another reason which actuated the Right Hon'ble Dundas to advocate free trade was his anxiety to facilitate the emigration of the Britishers and his idea was to colonise India with the energetic and

hard-working Scotchmen.[25] But the upholders of the East India Company's monopoly stated openly that "if unlimited intercourse as in the matter of the Asian colonies were to be thrown open the island of England would soon be depopulated."[26] Mr. Grant who opposed the free trade movement was of opinion that "it would fill the Eastern possessions with eager adventurers even from all parts of Europe who would vex, harass, and perplex the weak natives and finally endanger, if not occasion the overthrow of our Dominion in the East."[27]

The merchants invoked the aid of Dr. Adam Smith to assist them in condemning the monopoly of the East India Company. It is well-known to everybody that the economic doctrines of Adam Smith advocated free trade and competition. The success of the Industrial Revolution soon converted the British nation to his side and the accepted practice of granting monopolies was vigorously assailed since the publication of the Wealth of

(25) Dundas was the first President of the Board of Control after it was made a separate office. He was actually in office during 1793-1801. He had many Scotch predelictions and recruited Scotchmen for the Company's service.

(26) *See* Arthur Wellesley's defence of the East India Company's monopoly of trade. He is of opinion that free emigration of Englishmen into India would deteriorate the English race and the nation would lose its respect for the British name and character as a result of their "unrestrained intercourse"—*See* Hutton's Life of the Marquis of Wellesley, p. 150.

(27) *See* the Letter of Charles Grant Esq. of the Court of Directors to J. Bobb Esq. Vol. V, pp. 136-142, Wellesley's despatches.

Nations in 1776. The East India Company, however, pointed out that his doctrines would be of little avail in India. It was its considered opinion that the economic environment was so different that it would be futile to expect success by any close adherence to the doctrines of Adam Smith. They remarked that "every Indian adheres to that business which his fathers and ancestors had. Hence labour cannot flow where it is required and the industries cannot be improved by modern methods of division of labour." The argument of "long experience" in trading matters was also utilised against the granting of freedom of trade to private individuals who would be unable to compete with the East India Company. Its selfish pursuit of more dividends prompted it to oppose this strongest economic argument on the flimsy ground that "free trade cannot be permitted without being followed by a general intercourse nor that without hazard to our political power in the East."

There were, however, strong reasons which led the British Parliament to overthrow the monopoly of trade with India. Firstly, it recognised that the expansion of private trade would be mutually advantageous to England as well as India. Secondly, it realised the economic necessity of the British manufacturers who were crying loudly for more and more of the Indian materials to form a groundwork of their activity. Finally, the British Parliament wished to solve the economic distress

arising out of the depression of trade as a consequence of the Napoleonic War and the blockade of English trade instituted by him in his famous Milan and Berlin decrees.* English exports to India would be a compensating feature for the loss of the continental markets. London alone need not be the only centre to which the East India Company's imports into England were to be brought. All other Provincial cities, seaports and manufacturing towns should secure the raw material direct. Hence private individuals were granted full freedom to trade with Calcutta, Bombay, Madras and Penang. The prophetic forebodings of the East India Company that if trade were to be thrown open to private individuals it would prove their own utter ruin, involve a breakdown in the civil and military service, endanger the tranquility and happiness of the people of India, imperil British interests in Asia and overthrow the "Constitution at Home" proved to be nothing but fine efforts of imagination on the part of the Hon'ble the Court of Directors. Just as all political prophecies proved a dismal failure these evils which were so vividly painted were not realised. Even the subsequent development of trade after 1813 falsified all these presumptions.

Commercial Freedom.

The establishment of commercial freedom in 1813 soon led to an expansion of English commerce

* These decrees against English commerce were signed in November and December, 1807.

in the Eastern Seas.[28] Private trade figures began to treble themselves while the trade of the East India Company began to languish. The following table shows these facts clearly.[29]

Year.			Company's trade.	Private trade.
1814	..	..	£8,26,558	£1,048,132
1817	..	..	£638,382	£2,750,333
1828	..	..	£4,88,601	£3,979,072

The East India Company carried on a limited amount of trade in saltpetre and silks which were imported into England so that the remittance necessary for the Home Charges could be affected easily.[30] This country gained a good deal as a result of the policy of free trade. The new landed gentry of Bengal created by the Permanent Revenue Settlement began to absorb the imports and trade began to increase in volume. But the industrial decline of India was hastened by this process of importation of cheap foreign and British goods into the country. The use of machinery led to the cheapness of the

(28) This can be inferred from the increasing number of ships which have taken out licences in England as private traders to India from April, 1814 to Dec. 31st, 1816. It was about 254 and the aggregate burthen of these vessels was about a hundred thousand tons. *See* Selections from the Calcutta Gazette, Vol. V, p. 200. *See* the Trade Relations with India during the days of the East India Company, p. 206.

(29) For a detailed knowledge of the expansion of private trade after 1813 *see* R. Richard's Evidence before the Select Committee of the House of Commons, 1830, pp. 423. *See* also the Committee of the House of Lords on the Foreign Trade of the country, 1821 May—"the exports that of cotton manufactures alone into India increased from four to five-fold."

(30). *See* No. 37, Papers relating to the Finances of India—the trade of India and China, laid before the Select Committee *of the House of Commons*—1830,

British product and as they were suited to the tastes of the people they were consumed largely. Prof. C. J. Hamilton says "the East India Company had confined itself in the main to the methods and the old branches of commerce but the private traders brought a special commercial ability and a new enterprise to bear with the result that they opened up markets in India for an increased variety of British commodities. Spelter, cotton twist, manufactured cotton goods as Bandam Handkerchiefs, book-muslin and imitation shawls were introduced by them."(31)

The private traders imported several new Indian articles into the English market which never formed part of the Company's trade.

It was not, however, an unmixed gain *to this country alone* as Prof. Hamilton would have us believe. He does not take into account the decline of the handicrafts as a result of the increase of foreign trade.(32) The incidental advantages to the British people arising out of the abolition of the Company's monopoly of the Indian trade which consisted in profits of freight, agency, commission and manufactures were also considered as advantageous to the Indian people. No *doubt it was reciprocally beneficial* but it is idle to discuss that one nation secured greater advantages than the other. The British

(31) *See* the 7th Appendix of this book for the Company's investments in indigo, saltpetre and silk after 1813 as a means of remittance.

(32) *See* H. H. Wilson, "History of India," Vol. II, footnote on page 559.

manufacturers as well as the Indian exporters secured some benefit by the total abolition of the monopoly of the East India Company.

Closing of Commercial Residencies.

As the Company's trade began to decline the commercial residencies were closed and the dual role of the Company as a ruler and trader was put an end to.[33] In practice such a situation was already

(33) The E. I. Company did not altogether give up trade as soon as the 1813 Charter was passed. It sent a Trade Mission consisting of Messrs. Bayley and Rutherford to open up trading relations with the countries of the N. W. Frontier of India during the years 1818-1819. Metals, wool and other imports costing Rs. 6,53,833-13-0 were sent to Rutherford and in return shawls were secured and sent to the Import Warehouse and cash realised was sent to the Treasury.

The old policy of placing import goods in the hands of merchants was continued even after 1813 and when the merchants defaulted the E. I. Company suffered losses.

Name of the defaulting merchant.	Year of importation.		Balances at the debit of the merchant.		
Adit Paul	1817-18	Sa. Rs.	31,325	1	1
Bholanath and Adit Paul ..	..	,,	28,591	5	3
Sonatum Mullick ..	..	,,	3,111	12	9
Chudder Loll	1819-20	,,	13,485	12	1
Bhalobudder Dass ..	1821-22	,,	16,079	8	10
Ram Rutten Mullick ..	1822-23	,,	52,317	12	0
Ram Chunder Dey ..	1823-24	,,	5,333	5	10
T. J. P. Palmer	1828-29	,,	62,869	8	2
Other defaulters not exceeding Rs. 1600 each	..	,,	11,399	12	6
		,,	2,24,740	14	6

See General Letter from the Court to Bengal.
Financial Department, Paras. 1 to 9.
No. 32 of 1847, 21st Dec., 1847.
During 1813 and 1833 some of the commercial residencies were closed,

reached in the time of Marquis of Wellesley's administration and it was to enable them to perform the Governmental duties efficiently that a college was opened to train the Company's servants for this new task.[34] The gradual decline in the Company's trade can be shown in the following manner. The surplus commercial profits as distinguished from territorial revenue began to decrease and in 1828 it amounted roughly to something between £3000 and £42,000.

The Earl of Moira who came out in 1814 as the Governor-General had to follow the self-same policy of annexation initiated by the Marquis of Wellesley and which he condemned before accepting the office. During 1814 to 1823 the Nepalese Wars, the campaign against the Pindarees and the war against the Maharatta Confederacy had to be undertaken. Civil and administrative reforms were also carried out and an attempt was made to place the finances of the East India Company on a sound footing. With the exception of the nefarious transactions of Palmer & Co. with the Nizam of Hyderabad there is indeed nothing blameworthy in the record of this G.-General. Lord Amherst who was the G-General during 1823 to 1828 had to wage the first Burmese War which proved to be altogether " a costly affair involving roughly £13 ms. more than 12 times the cost of the

(34) *See* Owen's Despatches, p. 722. The Public Department Records of the Government of India always refer to this college. There is hardly a single General Public Letter *from* or *to* the court without a reference to this College in Fort William.

Pindaree War and the Maharatta campaigns." It was during this period that the credit of the Company fell to a low level in the Indian money market so that recourse had to be taken to securing loans from the Native Princes. The tightening of the money market consequent to the failure of Palmer & Co., caused great stringency and made the above step inevitable.

It was Lord William Bentinck who was appointed as the G.-General during 1828 to 1836 that inaugurated the era of reform which with the exceptions of the period of Lord Auckland, Ellenborough and Hastings continued till the end of Lord Dalhousie's administration. Great reforms under the heads of economic, administrative and social were achieved. The theory that "the end of Government was the welfare of the governed" was given full effect to during this period. Salaries of the Civil and military servants were cut down. The strength of the army was reduced. Batta—the field allowance to officers was suppressed. A stamp tax was levied and the licence duty on opium from the Native States yielded some revenue. The separate Government of Penang with its dependencies of Malacca and Singapore was declared subordinate to Bengal. Nextly, he continued to admit the Natives of India to higher administrative posts. But the chief event of his reign was the passing of the Charter Act of 1833.

Petitions were sent in 1829 to the British Parliament by the British merchants not to renew the Company's Charter but in case it was to be done

the renewal of the monopoly of trade with China should not be once again granted. A Select Committee was appointed to consider the question of the renewal of the Charter. As in 1810 so also in 1833 the East India Company strove hard to retain its trading monopoly with China. The East India Company contended that it was the profit from the Chinese trade that enabled them to declare a dividend.(35) The revenue of India was barely sufficient to cover the expenditure. Hence it would be impossible to make both ends meet if the Chinese trade monopoly was to be discontinued. The total deficiency of the Indian revenue during the period of 1814-1815 to 1828-1829 amounted to about £19,400,000 and this was made good by the allocation of trading profits(36) and public loans guaranteed by the Company. Another argument of the East India Company was the question of difficulty arising out of home remittances if the commercial department of the Company was to be abolished.

But unfortunately not one of these arguments proved to be sound. Lord William Bentinck, by his measures of peace, retrenchment and wise administration succeeded in restoring the finances of the Company into a satisfactory state and a surplus

(35) The Company's China trade undoubtedly yielded annually roughly £1 mil. profit but this was due to the high price exacted by the Company from the British consumers of Chinese tea. This indirect tax has been estimated by some witnesses at from £12,50,000 to 17,00,000 per annum. *See* the Financial Report of the Select Committee of the House of Commons, 1830.

began to appear. His Malwa Opium policy began to increase the resources. Home remittacnes which amounted to roughly 3 ms. at that time could be sent satisfactorily by means of bills.

The Select Committees of the Houses of Lords and Commons, 1830, which considered the monopoly of the East India Company with reference to the Chinese trade, came to the conclusion that there would be very large increase in the consumption of British manufactures by throwing open the trade to private merchants. Private merchants would push commerce much better than a monopolist Company which like all other monopolists had a "narrow, lazy and oppressive" spirit. New wants and desires would be created by the never-ceasing efforts of individual enterprise and speculation. Just as trade with India increased as a result of the opening of the trade privileges to private individuals so also the trade with China would increase. Americans have been exporting British manufactures to China of late and there is no reason why British traders should be denied this right. The charges of bringing tea to England would be reduced and private merchants would be enabled to affect returns from India in which there has been great difficulty. The attendant dangers of free and open trade with China were also emphasised. But the House of Commons finally abolished this privilege of monopoly of trade with China.(36)

(36) *See* Report of the Select Committee, H. of C., China Trade, 1830, pp. 1 to 40 on the affairs of the East India Company.

THE PASSING OF THE 1833 CHARTER.

The Charter Act of 1833 was the result of careful deliberation on the part of the British Parliament which took great pains to examine minutely the details of the administrative machinery of India. The commercial clauses, with which we are concerned, are the following :—

(*a*) The Company's trade monopoly with China and of the tea trade was finally taken away.

(*b*) The East India Company was required to close up their commercial business and to wind up their affairs with all convenient speed.

Thus it paved the way to British enterprise.(37) The terms on which the East India Company agreed to relinquish their trading privileges were (*a*) the formation of a guarantee fund set apart to redeem the original principal after 40 years was to amount to 52 ms. to be solely invested in British Government Stock, (*b*) all payments to the holders of the East India Stock should be discharged before any others whatever, (*c*) if the revenues of India

(37) The increasing competition on the part of new rivals, the private traders who began to appear on the scene since 1813 soon led to the failure of the six principal Agency Houses of Calcutta. A serious financial crisis ensued in 1833 and the total liabilities of these several mercantile concerns amounted to several millions. The Company's servants who were the chief depositors suffered severely. As their credit fell to a low ebb the Government was now able to absorb these deposits and loans could be floated at four per cent. rate of interest as those who did not remit their savings found the Company's debt alone secure.

proved insufficient any particular year to discharge the annual 10 and ½ per cent. on the English capital of £ 6000000 the deficiency for the time was to be supplied from the guarantee fund which was to be reimbursed from subsequent Indian revenues (*d*), at the end of 40 years the East India Company proprietors shall be entitled to receive £5 5*s*. of annuity. But in case it was deemed expedient to deprive the East India Company of the administration of India at the end of the term of the new Charter or at any period within 40 years from 1833 the proprietors should be entitled to claim the payment of the principal at three years' notice which being paid off they were to have all the rights of individual merchants to trade with China and India which were suspended till the time of the final payment.

It was not only after such stipulations that the trade privileges with India and China were given up by the Company. The Charter was renewed on such terms for another period of twenty years.[38] The East India Company had at last to recognise the force of public opinion and condescend to surrender the trade monopoly.

The gradual growth of trade between England and the East India Company's possessions in India and Ceylon can be inferred by the increasing number of ships and tonnage of goods sent into these territories. Before 1814 the number of ships was

(38). See H. H. Wilson—History of British India, Vol. IX, pp 476 to 567.

averaging at about 50 only and the burden carried amounted to about 45,000 tons. The following tables unmistakably show the increase in the number of ships and tonnage of exports and imports.

Table I.

From the Eastern territories to the United Kingdom.				From the United Kingdom to the East India Company's territories and Ceylon.		
Years.	Ships.	Tonnage.		Years.	Ships.	Tonnage.
1831 ..	150	63,566		1831 ..	137	59,721
1832 ..	168	72,895		1832 ..	193	85,260
1833 ..	182	76,825		1833 ..	204	83,769
1834 ..	186	75,461		1834 ..	197	90,833
1835 ..	216	89,449		1835 ..	219	96,157
1836 ..	227	97,034		1836 ..	267	1,17,784
1837 .	281	1,18,763		1837 ..	231	1,06,927
1838 ..	233	1,06,004		1838 ..	233	1,17,824
1839 ..	299	1,33,294		1839 ..	253	1,21,865
1840 ..	238	1,38,883		1840 ..	372	1,76,028
1841 ..	444	2,07,075		1841 ..	454	2,12,103
1842 ..	430	1,91,378		1842 ..	397	2,02,101

The second table shows the state of tonnage and shipping from 1842 to 1852.

		Entered.		*Cleared.*	
Years.		Ships.	Tonnage.	Ships.	Tonnage.
1840	..	25,887	10,50,387	26,589	11,30,473
1841	..	27,048	12,43,236	22,714	11,74,383
1842	..	25,908	12,43,671	24,181	11,82,783
1843	..	28,881	11,57,520	26,804	13,40,636
1844	..	26,137	12,07,636	28,550	13,31,852
1845	..	24,814	12,33,997	28,726	15,15,848
1846	..	25,307	12,79,683	23,039	12,55,451
1847	..	25,814	13,40,676	26,840	14,06,065
1848	..	31,014	14,35,403	29,440	14,82,203
1849	..	36,610	15,93,614	37,720	16,91,104
1850	..	38,972	16,50,258	41,939	18,08,137
1851	..	42,840	16,95,989	45,361	18,23,796
1852	..	48,867	18,34,162	50,213	19,44,071

The gradual growth of India's foreign trade can be illustrated by quoting the actual figures of imports and exports during the years 1834 to 1858.

Years.	Total Imports.	Total Exports.	Balance in favour (Balance against).—
	£	£	£
1834-1835	6,154,129	8,188,161	2,034,032
1835-1836	6,928,312	11,214,604	5,714,292
1836-1837	7,573,157	13,504,117	5,930,960
1837-1838	7,672,572	11,583,436	3,910,864
1838-1839	8,251,596	12,822,070	3,870,474
1839-1840	7,776,501	11,333,268	3,556,767
1840-1841	10,202,193	13,822,070	3,599,877
1841-1842	9,629,900	14,340,293	4,710,393
1842-1843	11,046,894	13,767,621	2,720,727
1843-1844	13,612,475	17,999,553	4,387,078
1844-1845	14,506,537	17,697,052	3,190,515
1845-1846	11,583,438	17,844,703	6,261,264
1846-1847	11,836,586	16,069,307	4,232,721
1847-1848	10,571,008	14,738,435	4,267,427
1848-1849	12,549,307	18,628,244	6,078,937
1849-1850	13,696,696	18,283,543	4,586,847
1851 ..	15,370,598	18,705,439	3,334,839
1852 ..	17,292,549	20,798,342	3,505,793
1853 ..	16,902,240	21,519,863	4,617,623
1854 ..	13,954,613	20,778,435	4,783,822
1855 ..	14,770,927	20,194,255	5,423,328
1856 ..	25,244,783	23,639,435	—1,605,347
1857 ..	28,608,284	26,591,877	—2,016,407
1858 ..	31,093,065	28,278,474	—2,814,591

It is not difficult to assign reasons for this steady growth of foreign trade. The East India Company itself began to promote Indian trade and industries after 1834 as evidenced by its petition in *1840 to* the British Parliament. When the West Indian Sugar Plantations could no longer supply sugar as a

result of the shortage of labour arising out of the movement for the abolition of slave trade attention was drawn to Indian sugar.[39] Oil seeds, jute, tea, coffee and wool were some of the chief exports developed during this period. Due to political revolutions and consequent industrial stagnation in the European countries in 1848 England had time to develop her manufactures and a market had to be found for these products in India. Hence all Parliamentary inquiries from 1830 to 1858 had this important consideration in mind, namely, the development of markets for the English manufactured goods. As one witness emphasises "In India there is an enormous extent of territory and the population would consume British manufactures to a most enormous extent. The whole question with respect to Indian trade is whether we are prepared to send out manufactures."[40]

Internal measures of Reform.

But much headway could not be made during 1836-1848 as they were years of aggression and annexation. The only measure directly contributing towards the expansion of trade was the construction of canals and roads during Lord Auckland's period of Governor-Generalship. Lord Ellenborough's wars must have afforded him little leisure and money for

(39) *See the Report of the Sugar and Coffee Committee of the House of Commons of 1848 presided over by Lord George Bentinck, Sixth Report.*

(40) *See* T. Bazlev's evidence before the Select Committee's Report, p. 57.

securing improvements in trade and commerce. On the other hand the Ganges canal was stopped or reduced to one of a navigation canal. Stringent measures against dacoities had to be undertaken and internal trade could hardly have flourished in the days of such insecurity. Lord Hardinge waged the keenest struggle in which the East India Company had ever been engaged since the growth of its Empire. During the last days of his rule certain measures tending towards the promotion of trade were taken. The Danish Settlements in India were bought in 1845. The Grand Trunk Road from Calcutta to Benares was completed. The Ganges canal was also finished. It was Lord Dalhousie that rounded up the British possessions in the different provinces. By the vigorous application of the Doctrine of Lapse he annexed some of the native princes' territory. He also vigorously pushed the construction of the public works. The telegraph and the railways have made his name famous. The external trade increased uninterruptedly during Lord Dalhousie's reign. The physical improvement of the Punjab territory was indeed astonishing.* Calcutta doubled its tonnage in these eight years. Bombay's commercial advance was simply astonishing. The extent of the sea-borne trade of Europe with India and the Far East can be gauged by the following statistics. In 1853 there were about 1356 English ships, 171 French

*See the First and Second Punjab Reports issued by the Board of Administration. See the Second Punjab Report, pp. 164, 213, 215.

ships, and 505 Dutch ships with a total tonnage of 1143453 and the exchange of merchandise annually between Europe and India and the extreme East was computed at 13,00,000 tons and a value of £40,000,000.

Attention has been drawn to the fact that the repairing of the canals was undertaken. It first made the districts through which the water courses went fit for human habitation. With the repairing of the roads, bridges and canals (41) internal trade began to increase. The agricultural industry was thus indirectly aided and an increasing volume of exports could now be secured to be sent out of the country. Lord Hastings speaks of the improved situation (42) of the Bengal Presidency and records that "the wages of the agricultural labourers were higher, cities were increasing, money was freely invested in permanent improvements, there was no emigration but many old cultivators returned to till the soil." The result of these measures must have undoubtedly contributed towards increase of

(41) Marshman in his History of India relates to the efforts of Lord Hastings "in beautifying Calcutta and his attempts to make the river Hugli a safe and secure water-way, the dangerous shoals impeding navigation and free circulation of trade were attended to." But from the evidence of Ross Mangles before the 1848 Select Committee of the H. of C. which was presided over by J. Bright the lack of good roads and poor means of internal communications can be understood.

(42) As an indication of the general prosperity of the country the state of the Company's revenue can be pointed out. It rose from £17,228,000 to 23,120,000 and after paying interest on the public debt there was a clear surplus revenue of 3 ms.

the foreign trade. He was not very friendly with the Native States and prohibited the cultivation of opium in Malwa by levying high duties on imported opium other than the production of Bengal and Behar. The import duties on British manufactures into India were lowered to the great advantage of the British manufacturer while the Indian counterpart had to pay the same high duty as before when importing goods into England.

The introduction of steam navigation and the adoption of the Red Sea route led to frequent communications and Lord William Bentinck did much to improve the means of communication between England and India. He gave preference to the Red Sea Route at the suggestion of Colonel Waghorn and strove to perfect the means of communication between England and Egypt. His masterly evidence before the Select Committee of the House of Commons did much to improve this new method of communications. "It is through the means of a quite safe and frequent communications between all India and England that the natives of India in person will be enabled to bring their complaints and grievances before the authorities and this country, that large numbers of disinterested travellers will have it in their power to report to their country at home the nature and circumstances of the distant portion of the Empire. The result, I hope, will be to rouse the shameful apathy and indifference of Great Britain to the concerns of India and by thus bringing the eye

of the British public to bear upon India it may be hoped that the desired amelioration may be accomplished." It was not these advantages alone that have to be recognised but the possession of quiet, safe and frequent communications was the *sine qua non* of stable foreign trade. The commercial advantage is no less important than improved political control. Lord William Bentinck's measure in encouraging steam navigation soon led to increased trade with Australia. The prosperity of Singapore was largely due to its being the port of call for Indian Steamers bound to Australasia. When Sir Stamford Raffles purchased Singapore in 1819 its importance was scarcely realised. Lord William Bentinck took measures to increase the population of Singapore and Penang and he also transferred the capital of the Straits Settlements from the Prince of Wales Island to Singapore. But it was the growing trade between India and Australia that assured this "Gibralter of the East or Asia" its financial prosperity.

Before the destruction of pirates during 1821 to 1824 can be related, attention must be drawn to the piratical raids carried on by the French fleets from the Island bases of Mauritius and Bourbon. These restricted the freedom of trade on the Seas and the early sea-borne trade must have suffered terribly from their depredations. Bengal in particular suffered greatly during the long Napoleonic Wars. The French fleets always seized the British vessels of commerce and carried them off as prizes. The Calcutta

merchants suffered during the course of fifteen years a loss of about 15 ml. and in 1807 the loss in six weeks was about £300,000. In 1810 these Islands were captured and much relief was felt by the merchants when this menace disappeared. To enhance the security of peaceful trade the pirates had to be exterminated and Lord Hastings concentrated his attention on this important measure.

Consolidation Period.

From 1837 to 1854 was the period of acquisition of further territory. It was during these years that the final strokes towards the consolidation of the continental Empire in India were being imparted to the decaying structure of the Mogul Empire. It was an era of continental inland expansion, a period of penetration and formation of settled intercourse from the three pivotal bases, namely, Bengal, Madras and Bombay. The East India Company had hardly any time to develop trade intensively. Moreover it was no longer necessary to carry on trade, which task was entrusted to private enterprisers by the Charter Act of 1833. The East India Company strove to pursue the policy of developing plantations and pushing European manufactured products. This briefly speaking was the prevailing trend of the economic policy of the period from 1832 to 1857.

Advent of English Capital.

The advent of the English Capital into India was due to the keen demand for jute bags to carry

corn from England which could be done as the Corn Laws were repealed in 1846. The English cotton industry demanded raw cotton and indigo was needed as a dye for the textiles. Indian tea which was better than Chinese tea soon became fashionable in England and investment in Tea Plantations commenced since that time. The years 1855—1862 are important as the formation of the limited liability companies for trade and Joint-Stock Banking on limited liability basis could now be undertaken. This rendered possible the investment of capital in other lands by merchant entrepreneurs aided by the small investor-shareholders who were bent on securing the tropical produce at a low price to satisfy the newly arisen bourgeoisie class created by the industrial revolution in England. English capital was freely invested in coal, tea, and jute which soon became their favourite fields of enterprise. There was the enfranchisement of the coasting trade of India and Aden and all ports were made free. Laws for the collection of excise in the Straits were consolidated. Efforts were made though partly in vain against the resulting frauds of the mahajan and ryot to stop the deterioration of cotton in the packing and pressing which gave India a bad name in Manchester even after she had really ceased to deserve it. Light-houses were placed in dangerous ports as at Pedra Bianca, and in the narrows of Singapore. Merchant Service Acts were passed to protect the sailors "from crimps and from the swarthy harpies of the Black

town in Calcutta, Madras and Bombay." The introduction of tea into the Punjab by the free offering of seeds and plants by the Government was accomplished. The efforts to improve silk did not succeed. Flax was cultivated at the Botanical gardens. Lord Dalhousie strove to improve the breed of horses. Merino rams were introduced into the Bombay Presidency but the quality of wool deteriorated back from the cross. Forest conservators were appointed in Burma. He prospected energetically for coal and iron in the newly acquired province of the Punjab and in the Nerbudda valley. [43] Lord Dalhousie spent lavishly on the public works, nearly seven and half mils. on public works ; while the average expenditure of the pre-Dalhousie period was about £9000 or ½ per cent. of the public revenue. The Russian War of 1854 and the American Civil War of 1860 to 1864 afforded further scope to trade expansion. The railways and the development of roads ushered in a new economic era in the history of this country.

THE FINANCING OF FOREIGN TRADE.

Coming to the most important part of this chapter *i.e.*, the financing of our foreign trade, the view is often held that our foreign trade has been financed by the Early European Banks. No qualifying clause even is generally added to this incomplete and inaccurate statement. Throughout the first part of this chapter the monopoly of the East India

(43) *See* Edwin Arnold "Dalhousie's Administration of British India" Vol. II.

Company and the character of the few breaches in its monopolistic position have been carefully elucidated. Up till 1813 the volume of English private trade and privileged trade was very little when compared with the Company's trade itself. Both were steadily increasing when in 1813 for reasons already stated the Company's monopoly was removed. But prior to that date in certain articles at least the Company's monopoly was carefully guarded. It was only in such articles which were not very profitable that the Company lifted the monopoly out of its own accord and permitted the private traders to carry on trade in it. The Agency Houses financed such indigo planters and the banks started by them financed the indigo plantations and the Company's servants who required money for their expensive style of living. These banks might have discounted a few trade bills but the Company itself was financing the bulk of the foreign trade by means of its investment arising out of the revenues from the Bengal territory. The foreign trade financed by the Early European Banks prior to 1813 must indeed have been a small percentage of the whole business and in no way comparable to the volume of foreign trade financed by the East India Company itself.

Even after 1813 very few Englishmen were generally licensed and the current of European immigration into this country was very insignificant. No banks were started by the English capitalists during the thirties of the last century as it was the case with the

colonies. Until 1842 the magnitude of the trade did not increase to a great extent and then the Agency Houses that came in after 1813 managed to finance the foreign trade. The genuine exchange banks appeared on the field during this decade.

THE FINANCING OF THE NEW AGENCY HOUSES.

Broadly speaking the work of the new Agency Houses [44] and the way they financed the trade has to be mentioned here. As soon as the trade monopoly was abolished in 1813 the new mercantile houses began to gather goods and send them to their Indian Agents for disposal of the goods and the money realised by their sale. The lack of banking assistance on the part of genuine Indian Banks forced the traders to seek the services of these Indian Agents in disposing off their goods in England. The new Agency Houses themselves disposed off their purchases by sending them to their Head Offices in England with instructions to sell them there.

THE ENGLISH CAPITALISTS AND THEIR INDIAN DEPARTMENTS.

The English capitalists established their Indian departments with a portion of their capital delegated to the Indian establishment. These English houses sent "drummers" to the manufacturing centres to secure consignments to India. The *modus operandi* was to advance payments on the consignments

(44) *See* Crawford's "Sketch of the Commercial Resources," etc.......

by twelve months' bills to the extent of two-thirds of their value. The charge for sale, remittance and guarantee used to range from seven to ten per cent. of which the Home Establishment received half or two-fifths according to negotiations. Good bills had to be procured by the Indian establishments while remitting money to England. When exchange was favourable this had to be undertaken by the Indian establishment. Until this time the funds generally were allowed to lie in the hands of the Indian Agents. In addition to this credit a second method of building up credit in India by the English Houses was adopted in the following manner. Bills were usually drawn by Englishmen on their Indian correspondents who had credits established to favour them or had current accounts exhibiting balances in their favour or Company's securities lodged in their name. These Indian funds were lent out by the Indian Agents of the English Houses. The Indian rates of interest were obtained by this method of employment of credit. More generally the Indian Agents lent this credit at their own risk on produce. This produce became actually the property of the Indian establishment. These Indian Agents worked with some degree of understanding and close alliance with each other that they had "uncontrolled power of regulating exchange and the price of the produce." When the shipping season commenced this produce was sent to the London establishment and bills were drawn against the

produce in favour of the London establishments. These funds were remitted back to the Indian establishments by bills drawn against the shipment at the same exchange as in the case of the bills in favour of the manufacturers. If the produce was sent on behalf of the owners the Indian Agent had to advance the money and bills were drawn in this case at the lower exchange of *2d.* or *3d.* for the rupee than was the case in the matter of their own bills transmitted to their manufacturers in England. When there was a dearth of Indian commercial agencies financing foreign trade the services of these Indian Agents had to be enlisted and gradually the monopoly of financing foreign trade passed into their hands.

The Specialising Foreign Exchange Banks.

Until we reach the last decade of our study 1840 to 1850 there were not many specialising foreign exchange banks created on any important scale. The few banks that existed conducted mixed banking somewhat on the model of the Scottish Banking institutions of this period. The absence of a specialising class of exchange brokers compelled the Indian Banks of this period to undertake this business. It was not in keeping with the prevailing English practice of the English Banks which refused to combine legitimate banking with foreign exchange operations on any large scale or the financing of

industries [45] on any important scale. The advent of the specialising foreign exchange banks soon eased the situation and the financing of our foreign trade is still done mainly with the help of foreign funds. The main problem, then, is to finance our foreign trade with the help of our domestic funds.[46]

(45) Dr. T. E. Gregory remarks "that British Banks did go through a phase in which the Banks acted at least in part as "mixed banks". The failure of some of these Banks in 1857 and the difficulties of the Northern Banks is indicative of the same tendency there"—*See* the Statist., Jubilee Number, 1928, Dr. T.E. Gregory's article on the Growth of the Modern Banknig Structure, p. 35.

Dr. Gregory quotes the example of Overend Gurney and Co., which conducted industrial financing in addition to certain duties of banking. It must, however, be remembered that there was no wholesale imitation of the practice of Sceiete Generale de Belgique which can be considered as the first example of mixed banking or that of the Credit Foncier or Credit Mobilier of France.

(46) *See* my written evidence before the Central Banking Enquiry Committee, also the article entitled the " Future of our Foreign Exchange Banks." Nov.-Dec., No. 1930, Calcutta Review.

CHAPTER VI.

BANKS AND INDUSTRIALISM.

The first entry of capitalistic production.—"Collective production" in the Companies' Factories.—Factory system in silk filatures.—The method of production in the Company's subordinate factories.—No private capitalisation of agriculture by the European capitalists.—The nature of the Early private European settlers.—Non-development of industries.—Due to lack of oceanic communications.—Tariff hindrance.—Lack of internal communications, *i.e.*, (undeveloped roads, railways and canals).—Lack of internal peace.—Government officials.—The restricted nature of the wants.—Slow development of banking as a result of non-industrial character and undeveloped economic conditions of the people.—No branch banking of the few sound banks even.—Agencies and branches.—The results of the non-development of branch banking: (*a*) unequal rates of interest, (*b*) Government's difficulties in remittance, (*c*) Bank's difficulties.—The first impetus for branch banking in this country.

THE FIRST ENTRY OF CAPITALISTIC PRODUCTION.

The capitalistic system of production was ushered in by the East India Company and although "Karkhanas" *i.e.*, factories under the patronage of the

Mogul princes existed it was nothing but an elaborate handicraft system that existed within the four walls of the "Karkhanas". It was petty industry based on the private property of the labourers, be it, the agriculture of the ryot or the handicraft labourers working under the decaying guild system. The tools of labour *i.e.*, the spinning wheel, the hand-loom and the blacksmith's hammer were simple and adapted to the use of the individual labourer. They were actually owned by the producer himself. Simple co-operation, the first phase of capitalistic production outlined by Karl Marx in the fourth section of his classic work "Das Kapital" existed.

"COLLECTIVE PRODUCTION."

The industrial character of the society was such, when the Agents had to secure the "Investment" on behalf of the Company. These puny means of production except in a few instances as indigo production, ship-building and the leather industry were not changed. The factories of the East India Company were not mighty productive forces comparable in any sense to modern factories. They brought forward a collectivity of men and changed the character of production (*i.e.*) from the individual system of production into the new mode of production thrust upon the factories; The resultant product was sold to the Company and this collective production in silk and cotton soon outstripped the individual small producers. But there was no offering

of the product for sale and these did not enter into exchange. Hence capitalistic production was purely in its infancy and the transformation of it in certain industries such as the textiles, silk and cotton and industrialised agriculture as opium, indigo, and tea was the direct fruit of the Company's factories and the British capitalists who came in after 1833.

But as it has become usual to refer to the East India Company's factories and consider this system as capitalistic production, an idea of their work must necessarily be placed before the reader's mind. Like the Hanseatic Merchants of the 16th century established in London so also were the Company's servants established in factories such as Agra, Ahmedabad, Berhampore, Broach, and Surat, etc. Their only business was to work solely for the Company's gain. On several occasions these factories tried their level best to establish direct touch with the weavers and stimulate their production of better, cheaper and regular production. Thus they strove to set up silk winding establishments, bleaching works and weaving villages.[1] But this attempt at industrial penetration failed mainly on account of social difficulties and political disturbances arising out of the decaying structure of the Mogul Empire.

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(1) For an intelligent account see the "English Factories in India," Vol. I, 1906 introduction, pp. XXI.

Similar was the procedure adopted by the Dutch and the British "interlopers" who entered surreptitiously into the Company's territory. During this period there was not much industrial penetration but with the advent of political power as a result of Clive's victory the situation became changed to a certain extent. The East India Company could have surely industrialised the country according to the then prevailing conceptions but for the mercantilistic theories which guided the English statesmen of the day. They saw great danger to England by such industrialisation of Bengal. The object was to destroy the silk industry of France as well as Bengal and instead of depending on Turkish and Italian raw supplies Bengal should be made the raw material furnishing country to the English silk industry.(2)

FACTORY SYSTEM IN SILK FILATURES.

Mr. Vansittart strove to industrialise Bengal and grow silk and wind it in village establishments as at Midnapore. The export of Bengal silk increased as a result of such encouragement and the Bengal District Records relating to Midnapore give us the figures relating to the increased export of silk from Bengal during 1767 to 1771. But due to defects in winding the silk, the Bengal silk could fetch no good price in the European market. Warren Hastings accordingly strove to introduce new machinery and working in the Company's buildings under the

(2) *See* Anderson—"The Origin of Commerce," Vol. IV, 1789, p. 69.

supervision of trained people it was expected that good silk would be produced. He introduced the Western Factory system specially in the silk filatures. But as no improvement in the value of the product could be noticed a change in the method of production was adopted. The "Agency System" was developed but the agent began to abuse his power and oppress the weavers. Subject to the twofold oppression and harassment of the Resident and the Collector the poor weavers were like men caught between the deep sea and the devil. They could gain no rest. The revenue exactions oppressed the weaver until the year 1793 when the permanent settlement of land was introduced. The commercial Resident in the interests of the investment strove to oppress the employee-weaver and the one could not be resisted by the other. Such was the state before we enter our period of study.

THE METHOD OF PRODUCTION IN COMPANY'S SUBORDINATE FACTORIES.

During 1800 to 1833 the East India Company maintained subordinate factories in the different parts of the country and each had its own local branches controlling and supervising production within the circle round it. In each such area there was the *gomastha* (agent) through whom contracts for the supply of cloths were made with the weavers and advances of money for the purchase of raw materials arranged in order to see that the weavers did not sell

their work to outsiders who offered higher prices. (3) To supervise their works peons and inspectors were appointed. Every effort was made to maintain a high standard in the quality of the cloth woven by the weavers. This was the system of industrial production which was, however, subject to two grave evils. The labourers and the workers were subject to cruelty, exactions, unremunerative wages and other evils. The employer-Company had to lose heavy advances by the dishonesty or inefficiency of the workers. Sometimes loans had to be written off as the Company either got back nothing or had to accept cloth of a very inferior quality. Such was the state of industrial production and such were the evils attendant upon it.

NO PRIVATE EUROPEAN CAPITALISTS IN AGRICULTURE.

Private European capitalists used to exploit the native princes and zemindars when loans at exacting

(3) *See* Mill's history, Vol. III, Chap. I. There were no manufacturers to whom large orders could be sent. Agents for collecting goods had to be employed to bring these goods to the warehouses or the factories. As the weavers were very poor advances had to be made for enabling them to purchase the raw material and enable them to eke out their livelihood during days of cloth manufacture. The Company's brokers were sent into the districts and these had to employ agents called *gomasthas* on a monthly salary. These men had established *Kutcheries* in various towns and attended by peons or servants they summoned the *dalals* or small brokers. These again employed inferior agents to transact business with the weavers. Four agents thus stood in a sort of regular tradition between the English Factor and the native operators. Each earned his own commission which was deducted from the payment made by the Company. As the weaver was ill-paid for his labour the price of his cloth was raised even before it left the shore of India.

rates of interest were made to them. [4] In 1797 an Act was passed restricting their freedom to lend money at extortionate rates. Sir W. W. Hunter records how a loan by Mr. Murray to Rajah Vikramadit Singh on mortgage of land was not admitted by the Council. [5] Similarly no European was allowed to hold more than 50 bighas of land. [6] Without permission to erect indigo works or carry on industrialised agriculture nothing could be done by the English capitalists of these days. [7]

The Nature of the early European Settlers.

It has already been recorded that it was in 1833 that the current of free European immigration into the country was strengthened. Till 1840 these strove to act merely as traders and merchants. The Hon'ble Mr. F. J. Shore realised clearly the possibility of developing the industries of the country and he wrote so very distinctly of the future of the Europeans in this country that the whole passage is worthy of quotation in this context. "It was not as traders and merchants that the English people could meet with success but as mechanics and artisans,

(4) *See* Appendix I of this Book—Paul Benfield's Transactions which illustrate how some of the European money-lenders obtained their wealth.

(5) *See* Letter No. 2950, Bengal Manuscript Records by Sir W. W. Hunter.

(6) *See* the Circular Letter to the Collectors—Order of Council No. 3184. This was withdrawn by the Charter Act of 1833.

(7) *See* A. R. Murray's Letter to erect Indigo works, Letter No. 2733, *Ibid.*

as enterprising capitalists willing to manufacture the raw material into finished products that they could meet with success. Indian merchants, traders and landholders were devoid of manufacturing skill and a wide field and great scope lay before them. Paper, gun-powder, iron and hardware manufactures, glass, clock and watch making, cabinet making, coach builders, saddlery and harness making, pottery, millinery, refinery, sugar and saltpetre, medicines, mills for grinding corn—all these afford *scope for improvement and English capital and skill would have had greatly improved these things. In matter of trade combined with manufacturing as in indigo, shellac and lac-dye the European had advantages as the Indian traders always thought it degrading to learn to superintend the working part of the manufacture.* The foreign trade was in the hands of Europeans. In the matter of retail trade in the Europe goods as they were styled these "European shops" conducted by the Englishmen had the advantage." (8)

NON-DEVELOPMENT OF INDUSTRIES.

The main reason for the non-development of these industries should now be studied. Firstly, there was the lack of quick means of oceanic communication with India mainly on account of the disinclination of the East India Company to share them with the French. Although there was official correspondence

(8) *See* Hon'ble F. J. Shore—Notes on India, 2 Vols. Italics mine.

in 1823 and although Colonel Waghorn demonstrated the feasibility of routing mail [9] through Egypt in 1829 nothing was done till 1845 when the Peninsular and Oriental Steamship Company was subsidised by the British Government to carry mails from London to the Suez Canal. Even after this date the policy of the British Government was fitful and half-hearted till Disreali purchased the Suez Canal shares. Much attention was not paid to internal navigation [10] till the time of Lord William Bentinck and iron tugs built by Mandsley were opened for this purpose only in 1836.

TARIFF HINDRANCE.

Another hindrance was the unwise tariff of England, which was heightened to a great extent by the cruel necessity of war finance, against the Indian manufactured goods or imports. Indian sugar, rum and coffee were discriminated and a heavy tariff levied against them while the products of the West Indies were admitted on the payment of lower duty. Indian manufactured cotton goods were admitted on the payment of 50 per cent. duty. On the contrary only 2 and ½ per cent. duty was imposed on England's manufactured cotton goods sent into India. Until 1842 this unfair treatment continued when as a result of the agitation of the British merchants headed

(9) *See* Auber's Rise and Progress of British India—Vol. II, pp. 642 *et seq.*

(10) *See* Carey—The Good Old Days of John Company—Vol. II, pp. 12 to 27.

by Sir George Forbes and R. M. Martin a resolution was sent out by the Court of Directors to the Parliament requesting that body to admit Indian manufactured produce on reciprocal terms with the produce and things of the United Kingdom when imported into India. (11) It was Sir Robert Peele who lowered the duties against Indian produce and manufactures. This step was erroneously considered as the free trade movement of England.

LACK OF INTERNAL COMMUNICATIONS.

Attention has been drawn to the overseas communications with England and the state of internal navigation. Both these were perfected only during the decade of 1835 to 1846. The lack of communications in the interior was a terrible handicap to the producers who might seek an outlet for their produce in the external or foreign markets. Neither were the roads and canals adequately constructed during this period. (12) The produce of the interior could not be sent to the ports on account of the difficulties of transit. (13) While North India (14) had the

(11) *See* The Asiatic Journal—Jany. 1842. *See* also the Evidence of Mr. R. M. Martin before the House of Commons' Committee. He pleads earnestly for the equalising of duties on Indian and West Indian sugar.

(12) *See* the First Report of the Public Works Commissioners, 1852.

(13) *See* "Bengal as a Field of Missions"—by Mr. Wylie published in 1854, the description of the Bombay to Calcutta Road is worth reading.

(14) *See* J. Freeman's Evidence before the House of Commons, First Report, pp. 114, 119, 157, *Ibid.* Second Report, pp. 31, 40, 52, 108. *See* the Evidence of W. Bolton—Third Report p. 64-65.

good fortune of river communications and a few made roads to supplement them but there was not even this poor consolation so far as South India was considered. Her economic development was hindered[15] by the absence of good roads and railways. The total mileage of made roads in the Madras Presidency in 1846 was only 3110 and ¼ miles. Under such distressing circumstances even internal trade must have been of an extremely curtailed or limited nature.[16] Even in Bengal there was deplorable lack of means of intercommunication. There were no roads to connect, even, Calcutta with any of the great cities of the interior. As Wylie rightly remarks there was "No road to Moreshedabad, no road to the Deccan, none to Patna, no such roads as Parish roads in England to connect villages and market towns in the interior. Consequently, in the rainy season every town was isolated from its neighbours and from all the rest of the country. Besides roads, bridges were wanted. There were hardly any bridges at all in the country; their place is partially supplied by ferries. The Grand Trunk Road within the Lower Provinces was only partially bridged and about half the bridges were

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(15) *See* the Evidence before the Parliamentary Commission on Colonisation and Settlement of India, First Report, pp. 6 and 7, Second Report, p. 67 and 88.

See the Evidence in particular of Major General Tremenhare, W. Theobold and J. T. Mackenzie.

(16) *See* Sir Birdwood's remark quoted by Dr. Watson's Plan for an Industrial Survey of India, p. 5 footnote.*

washed away from defects of construction."[17] Bulky goods could scarcely be carried over great distances. Salt was sold at 2*s*. per bushel at Calcutta while it fetched 5*s*. 1*d*. in the Punjab as a result of the cost of carrying it over 800 to 1200 miles on land. It was in 1860-1865 that roads in the Central Provinces were improved and a new and stronger type of cart was evolved to carry produce. As a result of these circumstances there was the economic isolation of villages on the one hand and the economic isolation of India from the rest of the world.

Until the neglect of the public works was rectified there could be no proper development of the manufactures or growth of foreign trade commensurate with the supplies at hand in the country. Pecuniary loss arising out of the want of communications has been estimated by Lieut-Colonel Cotton in his "Public Works of India" at about 25 mil.[18] The motto as regards public works was "to get nothing done" and let nobody do anything. This was done in spite of the fact that the taxes for repairing waterways and tanks were collected in addition to their general assessment. J. M. Ludlow says that in many cases "they still exact the same money revenue from the cultivators amounting at the present day to fifty, sixty, and seventy per cent. of the gross produce of the soil as if the tanks were kept in perfect repair and the cultivator received the

(17) *See* "Bengal as a Field of Missions" by Mr. Wylie.

(18) *See* also Dickinson's India under a Bureaucracy—pp. 87 to 90.

quantity of water required to grow a full crop of produce." [19] But it is a pity that this critic does not remember the efforts made by the E. I. Company to encourage the agricultural production in India.[20]

There were no railways until we reach the last decade of our study. The total mileage of railways up to July, 1857 was only 3648 miles. The East India Company, the Madras Company, the Sinde Company and the Central India Company were the early pioneers of railway enterprise in this country. Indophilus writing to the London Times points out that the railroad system was the basis of the military power and system in India. He considered "railways better than regiments and exhorted the English to lend more capital to complete the railways of India.[21] It was the want of the means of communication that forced the officers to have recourse to forced labour. Coolies and porters had to carry baggage on their heads. Carts were usually overloaded, the carters

(19) *See* J. M. Ludlow—Lectures on British India—Vol. II—p. 317.

(20) *See* the General Public Letter from the Court to Bengal—25th July, 1839.

"We propose from time to time to print and publish such information as may come before us calculated either to extend the knowledge of the productions of India *to increase their amount, improve their quality or give a stimulus to the demand* for them and we desire that you will cause similar measures to be taken for effecting the same objects throughout India." *See* the Statistical Memorandum of the India Office on the Iron potentialities in India—*See* the General Public Letter to Bengal from the Court of Directors—No. 113 of date 19th Nov. 1856. The grants of money to the Agri-Horticultural Society were for the same purpose.

(21) *See* Letters of Indophilus—p. 12.

abused and maltreated by them. Sometimes they were never paid." [22]

Lack of Internal Peace.

Again there was not much of internal peace during the first half of the nineteenth century. In the very suburbs of Calcutta frequent dacoities took place. Tigers were constantly killed near Calcutta and in Nuddea and deer and wild pig in Moreshedabad. The area of the jungle land must have been large thus showing that peace and progress have not been thoroughly established as yet at the beginning of the nineteenth century. The Saugor Island Society was formed for clearing the Sunderbans and making the area fit for agriculture. Markets and stations were also to be built and though this Society had no prolonged existence it shows the uncleared state of the portion of this country. Postal reform was perfected only in 1852. [23]

(22) *See* J. M. Ludlow—Lectures on British India—Vol. II, p. 366 and 377—Considering the lack of good roads this step was inevitable and it was only in 1840 that the road from Bombay to Calcutta was constructed. A plan was drawn in that year by the Bombay Government to construct a road from Bombay to Nagpore and the Bengal Government had to prepare its part from Calcutta to Nagpore. The existing road covering 264 miles had to be extended over 964 miles in order to facilitate the transit of mail and transit of trade from Calcutta to Bombay—Paras. 12 & 13. The General Public Letter to Bengal—No. 4 of 1840—24th April, 1840.

(23) *See* the General Public Letter from the Court to Bengal, No. 47 of 1852 dated 15th Dec., 1852, 19th May, 1852. The four measures of reform adopted were (1) uniform postage for single letter irrespective of distance, (2) stamps to be used in place of cash payments, (3) abolition of official franking, (4) whole time provincial postmasters. *See* also G. Public Letter from the Court to Bengal—No. 74 of 1853 dated 8th Nov. 1853.

Dacoities were committed all over the country. The hereditary gang robbers called Budducks, Hurrees, Khujucks, Dosads, etc. carried on dacoities. These worked with the permission of the zemindars to whom they had to pay dues. When the zemindars oppressed them they were forced to migrate to another district. Sir C. Metcalf appointed a Commission to enquire into the state of dacoities in the N. W. Provinces. Lord Auckland failed to do anything appreciable against the organised depredations of these disturbers of peace. Lord Ellenborough had to organise rigorous measures to quell the robber gangs in Central India but in lower Bengal they were very frequent even in Lord Dalhousie's time and as Mr. Wylie points out " a general feeling of insecurity had risen in the minds of the people of these districts." A special Commissioner was appointed. Mr. Wanchope succeeded in diminishing crime by one-half within the first year of his appointment. But complaints were, now and then, heard of dacoities so that there was no general security of person and property either in Bengal or Madras.(24) Coolies emigrated to the West Indies and the French Settlements. The lower class people lived in a state of wretchedness and poverty. Slavery was not finally abolished till 1832 when it was declared penal to

(24) *See* the Petition of the Native Merchants of Madras and the Missionaries of Bengal to both Houses of Parliament—quoted by Ludlow—Vol. II, p, 284, *See* also Cunningham—History of the Sikhs—p. 329-n.

purchase or sell slaves. The Act of 1843 removed the claims to slaves from the jurisdiction of the Civil Courts.

GOVERNMENT OFFICIALS.

Nextly, it was protection against the Government officials that was required during the early years of the Company's rule in India. In spite of the notable efforts made by the Court of Directors of the E. I. Company its early officers were generally debauched and profane to a high degree. This is not the proper place to catalogue the grievances of the people subject to the harsh rule of such officers of the Company. The miserable salary granted by the Company, the lack of female companions of their own race, the hot climate itself and perhaps the example of the previous Mahomedan rulers also, were responsible for this deplorable state of affairs. The efforts of Lord Clive and Lord Cornwallis to cleanse the Augean stable need not be referred to here. Lord William Bentinck reformed and extended the judicial and the administrative sides. He combined the executive and the judicial functions in the same hands. The status of the police functionaries was also improved. The link between the village officers and the higher officials was drawn closer and closer. This was the period of consolidation or the formative period of the British Administration and rule in India. The attempt was to add to the further

outlying portions and forge links between the acquired territories. The rulers were busy in conquering the whole continent of India. Doubtless some dubious tactics and questionable methods were employed to acquire territory and the economic condition of the people of Southern India and the N. W. Provinces was not at all a prosperous and enviable one. There were few commercial towns.[25] Consequently, no widened markets existed anywhere in the country.

RESTRICTED NATURE OF THE WANTS.

Above all the wants of the people were few and nothing of material importance was done to increase their tastes and habits and thereby increase their demand for the Western manufactured products. The interior of India was "untapped."[26] The natives were excluded from the higher Government services. They had no share in the Government services till Lord William Bentinck tried to do justice in this direction during the years 1830 to 1835. Such were the people and such were the economic conditions under which they lived.

(25) About 64 towns are mentioned as the principal cities of India in R. M. Martin's Indian Empire. His description of these centres is mainly based on Mr. Thornton's Gazetteer.

(26) *See* Colonel Sleeman's Journey through Oude—in 1849-1850, Vol. I, pp. 68, 169 and 415—*See* also Mead's—The Sepoy Revolt, p. 308—*See* also Mr. A. Kinnard—Bengal, its Landed Tenures and Police System—p. 14. *See* a pamphlet entitled the "The Mutinies, the Government and the Police" by a Hindoo, published in 1858, p. 36.

Slow development of Banking.

People living under such conditions can hardly be expected to work and satisfy their wants. With lesser number of wants the necessity to work was hardly a pressing one. This was the vicious spiral on which the then Indian society was placed during the period of our study. Had they been happy, contented and thriving subjects trained to want more wants there would undoubtedly have been much exertion on their part. Foreign commerce and domestic manufactures would have been multiplied several times. These would have been the customers of organised banks. Their mutual welfare would have been secured. The extreme poverty of the great mass of the people and the unsettled economic conditions of the country were the chief causes for the slight growth of the Banks and industries of this period when compared with the extent, population and the variety of the resources of the country. Without rapid economic progress on the part of the people there could hardly be any progressive improvement of banking in India.

No Branch Banking.

Leaving aside the possibility of banking development in the interior of the country as an impossible thing due to the unsettled state of the country we would have to consider the nature of the competition existing in the Presidency towns. With the starting of the Union Bank and the Agra Bank both of which

conducted business in Calcutta the banks had to be cautious in their dealings while employing funds in new directions. The Government Bank of Madras was the fourth Bank in existence by 1835. These had a total paid-up capital of mil. £1 hundred 50,000 sterling and the notes issued can be counted as one-third of the above capital, say, £760,000. The total working capital of all the Indian Banking establishments in 1835 was only a very small fraction of the total working capital of the Banks in the U. S. A. It was roughly one by forty-second of the total amount of the U. S. A. (27) banking capital. The capital of the Royal Bank of Scotland was one-third more than the total working capital of all the Banks. The Banks of Ireland had three times as much banking capital as British India had. If the note-issue of England were to be compared with the note-issue of India England had forty times more amount of notes than India.(28)

Agencies and Branches.

An extensive system of branch banking on the part of the Presidency Banks did not exist during this period. There were not sub-branches or paying

(27) The following detailed statement from the 1854 edition of Mcculloch— Dictionary of Commerce gives the reader an idea of the banking service in the U.S.A. *See* p. 128—1850. There were 684 banks with 139 branches. Their paid-up capital amounted to $.217317211, Loans and discounts—364204078, Specie —45379345, Note Circulation—131366528, Deposits—109586595.

(28) *See* the Report of the Select Committee on the Joint-Stock Banks—1836 —quoted by W. Clay, Esq. in his book—on Joint-Stock Banks. (1836).

offices even at any place of any of the Presidency Banks. Agencies were opened in the important centres to enable the Bank's work to be done smoothly. The Presidency Bank of Bengal attempted to open a branch at Allahabad and develop the agency at Mirzapore into a full-fledged branch.[29] The agency at Mirzapore was opened in 1837 under the supernitendence of Mr. Claude Hamilton. This attempt failed as there was no encouraging response from the customers of the place.[30] The attempt to open a branch at Allahabad was frustrated by the Government who were of opinion that the same rule binding the Head Office in the matter of converting the bank-notes into cash should be imposed on the branch as well.[31] Coming to the Madras Presidency the citizens of Cocanada requested the Bank of Madras to open regular branches and this was one of the first branches of the Bank of Madras started in 1863.[32] Of the attempt on the part of the Presidency Bank of

(29) The Bank's treasure was kept in separate chests in the Treasury and under the guard of the Treasury. By Jany. 1839, Babu Ramcomul Sen organised the business effectively and private bills to the extent of 4 lakhs of rupees were discounted in spite of the fact that there were altogether three banking agencies at Mirzapore in addition to the indigenous banking houses. By 1840 the agency was abolished being found unprofitable to maintain. *See* the Asiatic Journal—1839 and 1840 issues.

(30) *See* the Hon'ble Cecil Beadon's Minute on the Paper Currency Bill—4th Feby., 1861. *See* also Mr. C. H. Lushington's Despatch to the Secretary of State dated 27th April, 1859.

(31) It was permitted to open branches only in 1839. The attempt of 1836 proved a failure. *See* Act 6 of 1839.

(32) *See* McIver's Letter to Mr. S. L. Lushington—23rd Feby., 1863.

Bombay something has been recorded in another chapter already.

Coming to the non-Presidency Banks the Union Bank had agencies in Mirzapore and Singapore says Cooke but these are spoken of as branches by the officers of the bank in their evidence already alluded to. Cooke unfortunately does not draw much practical difference between a branch and an agency. It is mysterious how a practical banker could hope to be so indifferent about scientific terminology. The Exchange Banks had to open branches or keep agnecies against which they could draw bills. An agency would be rapidly displaced by a branch if large funds accumulate in the foreign place and the correspondent bank or agent grants a very poor return for the depositing of these substantial sums. This was the reason why the Agra Bank had to open a branch in Calcutta as a result of the reluctance on the part of the Union Bank to pay a high deposit rate of interest on the balances of the Agra Bank. Most of the other exchange banks had to follow suit and open branches in the important commercial centres. A reference to the list of banks prepared by me in an earlier chapter would indicate the branches of the existing banks of this period.

Even granted that the Government gave the facility to open branches in the interior there would have been no branches of the then existing banks on any wide scale for the state of the country was undeveloped at that time. No railways existed

during this period and communications were indeed difficult in the interior during this period.[33] No banker can hope to open any branch unless he is assured of an active amount of stable transactions with the people stationed in the locality. Even granted that the popular demand were to exist for a branch bank, the parent bank must consent to increase its capital for greater resources would be required to extend accommodation at its branches. It is undoubtedly true that deposits can be tapped in the branch area but during the first few years of its existence the ability to secure large deposits from the local people would be restricted and it increases only with the confidence that the Bank inspires among the people of the locality. Even granted that there is the willingness to increase the capital of the Bank on the part of the Bank management the shareholders generally object to an increasing extension of capital on the score of uncertainty of dividends. The tendency even in the present day is to transact banking business with a small amount of paid-up capital which is kept down purposely in order to pay a high rate of dividend rising up from 20 to 40 per cent. to the original shareholders. This is the

(33) The Benares Bankers usually suffered severe losses when the Company's Promissory Notes were sent through the Public Dawk. They approached the Government to facilitate this business and the plan of transmitting Promissory Notes through the Collectors and Land Revenue was adopted. This was originally hit upon to facilitate the payment of Land Revenue. *See* the Circular Letter, 26th Jany., '24 published in the Calcutta Gazette. (*See* the Financial General Letter—12th June, 1839—No. 12.)

case with most of the successful of the present-day loan companies of Bengal and they are considered more as dividend-paying machines than as banking institutions endowed with a missionary zeal to render useful and gratuitous services to the community.

But most of the earlier banks not undertaking internal exchange and foreign exchange business could not have developed branches as feeders to the parent institution. The security of short-term liquid investments which are so rare in the mofussil even in the modern days must have been entirely non-existent in those days.[34] Even now the problem of branch banking cannot be satisfactorily dealt with as the parent banks find little scope in profitably investing their funds in liquid securities. Several of the present-day banks have their up-country branches which seldom pay their way individually. The recent extension of a few branches of the Imperial Bank would not have taken place but for the Government aid and backing it has received. The profits will be diminished because in the smaller towns the ratio between profits and expense will be unfavourable and this tends to make the prudent banker cautious in the matter of extending his bank over a great number of small branches.

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(34) *See* the author's "Present-Day Banking in India"—Chapter on Bank Organisation.

The case is however different in the matter of agencies.[35] Agencies are established now and then and the distinction between a branch and an agent must be noticed at the outset. There is always a regular establishment attached at a branch. A manager gives security for a certain amount and a branch has power to draw bills or give credits. The powers of an agent are usually limited. They do not draw bills nor give credits for unlimited amounts. They have very limited power in this direction. When there is not sufficient business for a regular establishment the individual appointed as the agent arises and he is permitted to carry on his other business. Such a system affords great convenience to small cities. The agent has also to furnish security for a stated sum. Retail merchants can generally be selected as such agents in the mofussil. Either by the branch or the agency system there could have been the facilitation and cheapening in the matter of the handling of domestic exchange. But if extensive branch banking is so difficult to be established even now, it must be considered that it was no great fault on the part of these banks that they did not make any heroic effort to establish branches and copy the progressive tendency of the contemporaneous Scottish Banking institutions. So early as in 1803 the three public

(35) Agencies in the mofussil were opened by the Bank of Bengal in 1839 and bank-money was placed in the custody of the Government Native Treasurers. (*See* paras. 34 to 37—Financial General Letter to the Court No. 4.—dated 20th February, 1839.)

banks of Edinburgh had 39 branches throughout the country. It was believed that there were very few other provincial banking establishments then in existence. The Edinburgh Almanac of 1858 gives us a list of 360 branches of[36] the Edinburgh Banks, the two Glasgow Banks, and the banks of six other towns having 195 branches. By 1814 the branch system was thoroughly established in Scotland. The Bank of Scotland had 10 branches. The British Linen Co. had 37 branches and the Commercial Bank of Scotland 31 branches.[37]

Results.

The absence of branches naturally meant unequal rates of interest all over the country. The second defect was the existence of high charges for internal or domestic exchange. The only great contemporary bank which had no branches was the Bank of England. Till 1826 there were no branches but as a result of the widespread failure of the country banks in 1825 the people requested the Government to make the Bank of England open branches beyond the metropolis. So far as the First and Second Federal Banks of the United States were concerned they had several branches.[38]

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(36) *See* Sir W. Forbes "Memoirs of a Counting House," p. 4 footnote.

(37) *See* D. Gavin Scott—"History of the Rise and Progress of the Joint-Stock Banks in England"—1837.

(38) *See* Catterall—"The Second Bank of the U. S. A." pp. 376-404. The Second Federal Bank had 29 branches excluding agencies. Each branch had its own directors and was subject to the Central Directorate of the Bank.

A great number of branches would have offered great facilities to the Government in collecting the funds of the Treasury and making disbursements on behalf of the Government. It was for this object alone Warren Hastings had several branches of his "General Bank" appointed in numerous centres. The Bank-note circulation could have improved and increased the circulating medium. A better, cheaper, more uniform and general currency than the metallic one could have been secured by the elastic bank paper and the commercial world could have derived immense benefit out of such currency. Oftentimes the Presidency Bank of Bengal and the Presidency Bank of Bombay were forced to invest their funds in Government investments. A large part of their cash was locked up in Government investments. First class branch officials and constant and efficient control by the parent bank would have enabled it to find better utility for its capital than mere investment in gilt-edged securities. The real reason which must have deterred the bank management from extending branches throughout the period of our study, must have been that the opening of branches in a new country and making loans on real estate meant bad banking. This must have been the reason why we do not find it indulging in experiments of branch banking in the interior after the unremunerative working and sad experience of the Mirzapore branch. The lack of first rate means of communications must have been understood by it as a

real limitation on its ability to secure efficient control over the far-off branches. Perhaps also the lack of trained men must have limited the scope in the direction of branch banking. Branch banking is possible only in the matter of highly civilised people and as Fullarton wisely remarks "the want of an intelligent and disinterested public to observe and check abuses and the impossibility of securing honest and capable managers of branches" limited the possibility of branch banking in the country.

Though such were the advantages of branch banking it is indeed strange to notice that the current periodicals of this period do not discuss this question of establishing branch banks. This indifference or apathy was not rectified till 1862 when the Bank of Bengal agreed to open branches immediately at Benares, Mirzapore, Patna and Dacca. The Bank of Bombay agreed to establish branches at Poona, Surat, Ahmedabad, Dhollera, Sholapore and Dharwar. The Bank of Madras, however, did not agree to open branches immediately at specified places but clause 19 of the agreement permitted the Bank to take up Government business at any branch that may be opened during the continuance of the agreement. The Government, however, did a wise thing in arriving at the conclusion that "it was advantageous to prefer the services of other banks when they were ready to furnish adequate security. The Bank of Agra was given the option of tendering and as it tendered at a slightly lower figure the treasury business

at Agra and Lucknow was proposed to be given to this Bank.(39) The Bank of Bengal secured the business at Allahabad, Delhi, Lahore, Nagpore, and Jubbulpore. But in 1863 the Secretary of State for India cancelled the agreement with the Agra Bank. At all these places the banks and their branches were given the free use of the Government balances up to a maximum without giving any special security. There was a minimum balance at each centre which the Government agreed to deposit failing which it agreed to pay interest. The following table shows the practice following the agreement made on 3rd Jany., 1862.(40)

Bank of Bengal.	Minimum Balance or else int. payable by the Government.	Maximum Balance which the Bank could use without special security.	Actual Balance, 31st March, 1862.
Calcutta	500,000	700,000	4,411,548
Patna	30,000	50,000	167,825
Mirzapore	28,373	37,381	38,582
Benares	30,000	50,000	80,237
Dacca	15,000	25,000	11,917
Allahabad	17,000	35,000	2,050,028
Delhi	17,000	35,000	108,409
Lahore	17,000	35,000	96,526
Jubbulpore	20,000	40,000	116,616
Nagpore	30,000	50,000	107,258

(39) *See* the Resolution of the Financial Department—27th March, 1862. It says that "as regards the establishment of branch banks the Government will in each Presidency prefer dealing with the Presidency Banks when the ground is unoccupied. But when other Banks have been established before the Presidency Banks think fit to establish a branch the Government considers that they will have a preferable claim on equal terms and finding proper security.

(40) *See* Samuel Laing's Minute—dated 7th May, 1862.

Bank of Agra	Minimum Balance or else int. payable by the Government.	Maximum Balance which the Bank could use without special security.	Actual Balance 31st March, 1862.
Agra	20,000	25,000	481,534
Lucknow	15,000	17,500	74,568
Bank of Bombay	300,000	400,000	322,532
Bank of Madras	100,000	150,000	473,661
Cocanada (41)	700,000	105,000	....
Otacamund	6,000	10,000	....
Nagapatam	13,000	50,000	....

The First Impetus for Branch Banking.

The granting of such fairly liberal terms gave the Presidency Banks good prospects of future development and assurance of a settled position. As a result we find the branches of the Bank of Bengal alone increasing to about 18 by 1868.

It is indeed a pity that the agreement with the mofussil bank—the Bank of Agra—was cancelled in 1863. But for the necessity to conduct dealings in exchange both internal and foreign these banks would not have ventured forth on branch expansion. The Agra Bank had branches in Calcutta, Bombay, Madras and London, Lahore, Amritsar, Canton, Shanghai, Kurachi, Edinburgh and Sydney. The Union Bank had branches in Mirzapore and Singapore.(42)

(41) Approved by the Secretary of State for India—Sir C. Wood—Financial Letter to the Governor-General-in-Council—15th August, 1863.

(42) *See* the Evidence of the Secretaries Mr. Abbott, Mr. J. C. Stewart and other officers before the Chief Justice—Documents relating to the suspension of the Accountant General—W. P. Grant, Esq., the Vice-President of the Union Bank. A copy of this pamphlet is available in the Imperial Library of Calcutta,

Some of the Joint-Stock Banks of the N. W. Provinces had to follow the footsteps of the Agra Bank. The North-Western Bank soon copied these arrangements and opened branches in London and Calcutta.

But so late as in 1863 we find Mr. C. E. Trevelyan exhorting the Calcutta Banks to open branches in the interior to develop the material resources of the country. The example of the Scottish Banking system was brought before them as a suitable model for expansion. He wisely points out that "India is not like America and Australia where everything has to be created. There are enormous ready-made resources here which only have to be brought into relation with European civilisation and if our merchants and bankers take up our civilians and military men in their own sphere I do not see any limit to the prosperity of the great country."(43)

Another shrewd observer Mr. C. Rangacharlu, Asst. Currency Commissioner of Calicut remarked "that the tendency of the Presidency Bank was to help traders and mercantile classes in the Presidency Towns and other cities." He was one of the first to suggest the starting of banks mainly for the agriculturists. "They were to be banks of deposit and loan but not of discount. Bills might, however, be granted on other places of India for facilitating remittances but the main object of these banks was to facilitate

(43) *See* the Hon'ble Mr. C. E. Trevelyan's Minute—28th February, 1863.

the employment of agricultural capital.[44] They have to teach the agriculturists the productive investment of their surplus savings.'' Had this intelligent suggestion been acted upon the present-day plight of the agriculturists would decidedly have been far better.

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(44) *See* the Evidence before the Mansfield Commission—1867.

CHAPTER VII.

BANKS AND THE CURRENCY ORGANISATION.

Introductory.—Evils of Pre-Company Currency. —The Company's Investment.—Early efforts at bi-metallism in Bengal.—Attempts in Bombay.—Currency Reform in Madras.—Monometallism adopted in 1806.—Lack of uniform standard in the different Provinces.—The 1835 Act.—Token Currency.—Failure to enlist the service of the Banks.—Parallel development of banking and currency.—Sound currency is the basis of successful banking growth.—Historical parallel of the U. S. A.—The Central Bank of Issue.

INTRODUCTORY.

Fortunately for the writer there is no necessity to devote any portion of his thesis to the tracing of the details of the currency organisation during this period of our study. As one Economist says "there is no subject in Indian Economics which has been discussed so threadbare as currency and exchange." Quite a large number of writers have dealt with this aspect from the historical standpoint. Consequently it is needless repetition to point out the events of chronological interest in the matter of our currency growth and development.

EVILS OF PRE-COMPANY CURRENCY.

The lack of uniform and generally acceptable currency was the chief evil of the pre-British days.

It was an era of disordered and unreliable metallic currency. As each potentate began to issue his own coinage as proof of his sovereignty and as these were in diverse stages of debasement and were circulating more as commodity than as coin with fluctuating values attached to them it began to make confusion worse confounded. Each district and province had many different local legal tender coins of varying weight circulating within its territory. As many as two hundred mints came into existence during the days of the Mogul domination and this number increased during the days of the decay of the Mogul Empire. Had one uniform coin been issued in the days of the Mogul Empire, the shortage of currency would have been remedied. But the maintenance of a parallel standard with a plurality of Mints issuing debased coins as proof of the insignia of sovereignty proved as difficult as the one of maintaining the vexed double standard.[1]

THE COMPANY'S INVESTMENT.

Although the East India Company attained the Diwani and political supremacy the currency difficulties were not properly envisaged and tackled effectively for quite a long time as it had no definite views in the matter of currency. The use of the revenue for investment purposes in China, Madras

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(1) *See* F. Atkinson—The Indian Currency Question—1894—p. 1.—*See also* S. V. Venkataswara—Mogul Currency and Coinage—in the Indian Journal of Economics—July, 1918—p. 169.

and Bombay soon complicated the currency situation. Bengal rapidly became divested of its currency. In spite of the protests of the administrators of the Bengal Province nothing was done to alleviate the currency troubles.[2] The defect of shortage of currency was not cured by radical measures of currency reform.

EARLY EFFORTS AT BI-METALLISM IN BENGAL.

Earlier writers on this subject have already pointed out the different attempts made by the Company to continue the double standard of the Moguls, their immediate predecessors. This attempt at bi-metallism was made in the three different provinces. In Bengal the Mohurs were minted in 1766 and 1769 and used as legal tender currency at the ratio of fourteen sicca rupees and sixteen sicca rupees respectively. But as the Mint value was higher than the market value existing in India as well as Europe it was found out that the parallel standard would not work well in actual practice. In 1790 Gold Mohurs were issued once again but allowed to circulate without any fixed ratio attached to them. In 1793 a new gold mohur was minted and made legal tender at 16 sicca rupees. As this was different from the market ratio it again failed to circulate. The three-fold attempts at forcing bi-metallism made in 1766, 1769,

(2) *See* Verlst—View of Bengal. *See* also Appendix 9 to the ninth Report of the Select Committee—1783. Letter to the Court of Directors, dated 21st Nov., 1769.

and 1790 failed.(3) Only then was it realised that currency stringency could not be alleviated after all by bi-metallism. It was by means of their constant failure in the three different provinces that the Company came to realise that it was impossible for any single country to maintain independently a ratio between the different metals, silver and gold differing from the one fixed by the world's markets. (4)

The treasury certificates issued by MacPherson under the exigencies of war-time financing proved only a useful palliative and by 1789 the drain became almost unbearable and Shore(5) wrote a strongly worded Minute protesting against this annual drain of specie from the Province. The issuing of legal tender treasury bills was the only alternative left to the administrators and in 1800 the treasury bills were once more issued as circulating medium.(6)

The absence of vigorous and strong private banks, the circulation of depreciated currency, the lack of artificial capital arising out of the circulation of

(3) *See* J. C. Sinha, "Economic Annals of Bengal" for a discussion of these attempts.

(4) It was only after the failure of the repeated attempts at bi-metallism in the last half of the eighteenth century that the 19th Sun Sicca Rupee was fixed as the standdard Rupee and coin of the Provinces of Bengal, Bihar and Orissa by Regulation XXXII of 1793. The Sunwat rupee was mainly used in military accounts and the current rupee was more a unit of account than a real coin and its value was fixed at the rate of 116 to 110 Sicca Rupees.

(5) *See* the Minute of June, 1789 by Shore.

(6) *See* the Minute of the Governor-General dated 3rd November—1800.

credit, the non-existence of a money market, the scarcity of specie and the abnormal influence which the local bankers exercised on the value of the treasury bills of the Government led to the starting of the Bank of Bengal. With the slow expansion of trade specie was brought back in payment for the exports. In spite of occasional scarcity of specie as in 1822, and 1830 (7) the currency position was improved as a result of bank paper circulated by the quasi-Government and the private banks. But unfortunately neither paper currency was made elastic nor was the Independent Treasury System given up. The growing demand for currency was not met either by a gold standard with silver as subsidiary currency or by the banks being developed to their full capacity under Government patronage and the conferring of legal tender privilege on the bank-notes. On the other hand Government currency was considered as the suitable remedy and banks were deprived of the privilege of issuing notes.

(7) The Calcutta Government Gazette of February, 1827 remarks that "paper currency was exercising little or no influence beyond the limits of Calcutta." Specie was the sole circulating medium. The balance of trade being against the Presidency specie was driven out of the Province. In 1830 the insufficiency of circulating medium was felt keenly. It was considered necessary to extend the privileges of the Bank of Bengal or start a rival bank. The increasing growth of population made this imperative and one of the main reasons for the early success of the Union Bank was the commercial necessity on the part of the people. *See* the Asiatic Journal—1830.

ATTEMPTS IN BOMBAY.

Even in Bombay, which happened to be more successful in its trials with the bi-metallic standard than other provinces the ultimate result proved to be the same as in Bengal. The initial success was due to the fact that the ratio selected as the official ratio in 1774 was closely related to the approximate market ratio.(8) But unfortunately the action of the Nawab of Surat in debasing the silver rupees by about fifteen per cent. created difficulties for the Bombay Government. The remorseless operation of the Gresham's law came to be felt and the Company's rupees as well as the Mohurs were driven out of circulation by these debased rupees issued by the Nawab of Surat. As both were legal tender in the Bombay Presidency it soon became denuded of the sounder rupees issued by the Company. The right of minting Surat Rupees was allowed in 1800 to be conducted at the Bombay Mint. The new regulations of 1800 fixed the ratio between the silver rupee and the Mohur at 14·9 to 1 (gold). The market ratio was, however, 15·5 to 1 of gold with the result that the gold mohur disappeared. The Bombay Rupee became assimilated with the Madras Rupee in 1823 and in 1835 the Madras Rupee of 1818 was fixed as the sole legal tender of payment. The starting of banks improved the situation but when silver was not

(8) *See* the Report of Dr. Scott on the History of Coinage in the Bombay Presidency with Appendices.—Quoted by B. R. Ambedkar. "The Problem of the Rupee"—p. 16.

produced in abundant quantities the people of Bombay had to fall back on gold ingot currency and this was one of the reasons why the agitation for gold currency was so greatly strengthened during this period.

CURRENCY REFORM IN MADRAS.

Unless the currency history is studied from the beginning of the British rule the tangled and confused state into which it has fallen at the end of the eight-teenth century cannot thoroughly be grasped. When the British were first permitted to settle in Madras by the Naik (9) or the native ruler they were also permitted to coin money "without paying any Dewes or duties whatsoever more than ordinary wages or hire unto those that shall quoyne the money." But a reference "to the official consultation No. 1974 which contains the firman or cowle granted by the Rajah of Venkatapathi makes it clear that no such power to coin money was conveyed by the Naik." But Pampa Braminey says "that Sri Ranga Rayaloo empowered the British to coin pagodas with the stamp of Krishna, Lakshmi and Rukmini." The Government of Madras certainly seem to have taken advantage of this right and minted the new pagodas known as the Madras pagodas which differed in weight from the pagodas current in the northern settlements of Madras or the district of Masulipatam known as the old pagoda of Masulipatam. The minting of coins

(9) *See* O. C. 1690—dated August 2nd, 1639.

was allowed to be done by the Chetties during the years 1644—1648. In 1648 the agent Mr. Greenhill withdrew this privilege and appointed the Company's servants (*i.e.*) to perform this duty.

Sri Ranga Rayaloo was deposed in 1646 by the Mussulman invaders and the British had to send one Vakil by name *Cosse Veeranna* to the Sultan Gaonan Soobas. He granted a *parwana* of four villages and gave permission to create a fort and to establish Daroolzarib (a mint house to stamp gold coins) on condition of paying annually the sum of 1200 Madras pagodas.

In addition to this gold coinage, the subsidiary coinage of fanams and cash were struck with a large proportion of alloy in them. The silver fanam was first minted in 1688 and at Madras the fanam was nominally valued at 1-36 of the pagoda but the bazar rate of exchange ranged between 1-32 and 1-35 of the pagodas. It was roughly equivalent to 3*d.* of English Money while the pagoda was worth 8*s.* 4*d.* The copper money was designated cash and the Madras fanam contained 80 cash. The single cash was a coin of account like the *current* or the *chalan* rupee of the East India Company. The smallest coin struck was a multiple of the cash coin of account and it was apparently 4 cash of account.

Large quantities of silver dollars or "ryals of eight" were imported into the Presidency and were

current in circulation. By 1656 they were very much depreciated in value.[10]

From Tavernier's account one can gather that there were several kinds of pagodas current in Madras between 1656 and 1658. Firstly, there was the old pagoda which was a thick flattened pullet of gold about three-eighth of an inch in diameter. Secondly, there was the King of Golconda's pagoda which had on the reverse side a plain design but for a central dot and mark like an arrow head. It was a flat disc about 5-8 of an inch in diameter. The name of the Sovereign of Vizianagar was written in Devanagiri character on one side. Thirdly, there was the English coin issued from the Fort St. George or at Madrasapatam. The English coin had a rude figure of Vishnu with rays emanating from his person and having the reverse plain. There were other types of Vizianagar pagodas displaying on the obverse the figure of Vishnu either with or without his consorts and a plain or granulated reverse.

Dr. Fryer writing in 1673 remarks that the pagoda was worth about 8 shils. and the fanam *3d.* Six cash was equivalent to one fanam (*i.e.*) they were worth $\frac{1}{2}$*d.* Both the pagoda and the fanam were of gold but not of equal fineness, the first was 8 and $\frac{2}{3}$ Matta fine out of 10 parts. The weight of the pagoda was 53 and $\frac{1}{8}$ grains and was $\frac{1}{8}$ in weight of the silver dollar

(10) *See* Captain Thomas Bowrey's account of coins in the Madras Presidency. He says that they were worth 5 shils. at the time of his visit.

or piece of eight. The ratio between gold and silver was about 16 of silver to one of gold.

In 1675 one Mr. Langhorn was deputed to the King of Golconda to secure the permission to coin silver rupees and copper pice in the Fort St. George area. But the required firman was not however granted. The Company fixed the exchange between England and India at 9*s*. 8*d*. for the pagoda and 2*s*. 3*d*. for the rupee in place of 8*s*. 8*d*. and 2*s*. 6*d*. thus reducing the salaries estimated in sterling but paid in pagodas.

By 1685 silver currency came into circulation in Madras by way of trade as in Bengal. The Fort St. George Mint was free to all persons but there was abnormal delay in coining gold.(11)

In 1686 the East India Company secured a Charter from King James II to coin rupees but they were to have the same fineness, form and device as the Mogul coin.(12) The Madras Government which was anxious to mint silver fanams deferred the coining of rupees.

Prince Karim Buksh, the son of Aurangazeb empowered the Government of Madras in 1692 to mint money. Gold and silver were independent standards of value at that time and in order to save the people

(11) *See* P. C. Vol. XI—14th April, 1687.

(12) It was only in 1835 that the coins issued by the East India Company bore the effigy of the King and until that year the Company's coins bore the inscriptions of the local Mogul Empire or the native rulers, the Mogul Emperor or Hindu rulers in whose territory they were allowed to settle.

from confusion arising out of the circulation of silver and gold the gold fanams were withdrawn and melted and the Madras Council declared that silver fanams were to be current at the value of 36 silver fanams to one gold pagoda.

The first efforts at uniformity in the matter of gold coinage were made in 1701. The Madras pagoda was declared as the sole currency in the Madras Presidency. Doodoes were copper coins and eight of them were declared equivalent to one fanam and 10 of cash were made equivalent to one doodoe. They were stamped with the Company's mark in much the same way as the fanams of the West Coast. Rupees were also coined at Madras and these were three or four per cent. better than the mixed rupees in circulation. The mixed rupees were not used at any fixed rate. Their value rose or fell according to the demand for silver. Thus there was no uniformity ot the standard as yet.

During the next few years nothing was accomplished in the direction of monetary reform. In 1713 the Mint was removed from the old site in the Fort and in 1717 the Mint building was enlarged and it was reconstructed in 1722.

In 1755 the debasement of gold coinage attracted the attention of the Council. There were the heavily alloyed old Negapatam pagodas introduced from China by way of trade. There were the new pagodas issued by G. M. Pitt which were intended to drive out all

other varieties in the receipts and payments save only in the Northern Circars where the old Madras Pagoda still remained in circulation. The new coins of 1730 resembled the Negapatam pagodas in all ways except that the letter M was placed right and left of the image of the Hindu Deity and it became consequently known as the M. M. pagoda. These were not accepted by the Government Treasury. Hence they could not circulate. After a trial of few years they were melted and from 1736 they were no longer minted.

By 1736 the premium on the old Madras pagoda rose to eight per cent. over and above the Negapatam pagoda. There was great discontent and a feeling of insecurity on account of difference in fineness among the different pagodas. So the practice of tying up sound pagodas in 1000,100 and 10's was resorted to. These bags passed current and never were opened. The shrewd shroffs began to take advantage of this habit to dupe the people and summary punishment such as trasportation to the West Coast of Sumatra was often inflicted upon such deceivers. Three such dishonest shroffs were punished in this exemplary manner.

The star pagoda which became the standard gold coin of South India was first coined in June, 1741. But the mistake of coining old Madras pagodas continued for use in the Northern Settlements and even the Mint authorities could hardly distinguish the

gold bullets intended for the star from the Madras pagodas. The Madras Government not only maintained this multiple currency but persisted in forging a bi-metallic standard. In 1749 the Star pagoda and the Arcot Rupee were considered legal tender and had to circulate at the official rate. 100 star pagodas were declared equal in value to 350 Arcot Rupees. The undervaluation of the pagoda soon made it disappear. But the Madras Government strove to remedy the evil by importing more gold and by attempting to collect all the dues in pagodas alone. Although temporary ease was secured by these methods till 1770 still there was no real solution of the currency question. As the market value between gold and silver began to change currency chaos crept in inevitably. With the advent of more silver from Bengal which was sent to finance the Mysore War operations the market ratio between gold and silver began to change once more. Nothing undaunted the authorities soon changed the official ratio and declared 365 Arcot Rupees to be equal to 100 star pagodas. Recognising that there was an undervaluation of the pagoda it attempted to correct the mistake by fixing another ratio 350 Arcot Rupees to 100 pagoda in 1797. It was the pagoda that now disappeared from circulation altogether. Like the abortive experiments conducted in Bengal and Bombay these repeated efforts at bi-metallism proved a failure.

As remarked already, there was a multiplicity of coins in actual circulation. There were different gold coins, the most prominent of which were the Madras Gold Mohur and the Arcot Gold Mohur. There were also the Madras Rupee and the Arcot Rupee minted in silver.(13) Besides these there were 12 other kinds of rupees current in circulation. At Vellore there were four kinds of silver rupees. At Negapatam there were 10 kinds of silver rupees. In Tanjore the silver fanams were much in circulation. Thus in several parts of the country there were more than one kind of coin or rupee current at the same time. These were also in various stages of debasement. Such was the case even in Bengal so late as 1770 before Warren Hastings took up monetary reform as one of his objects.

Much need not be written of the state of currency in the Madras Presidency during the years 1742 to 1792. The main reasons for this can, however, be grasped if the political situation of the English East India Company is understood. The Company's servants did not care to acquire permanent interest in the Presidency after defeating its opponents in

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(13) The Arcot Rupee was the Rupee of the Nawab of Arcot and by 1740 the English, the French, and the Dutch secured the privilege of coining this rupee. *See* Dodwell,—Indian Journal of Economics—January, 1921. The English Arcot Rupee was not only coined at Madras but at Dacca and Calcutta also. They contained 160 to 170 grains of silver and weighed 170 to 177 grains Troy. In 1774 the coining of the Arcot Rupee in Bengal was discontinued. But it was in circulation in the Bengal Presidency even during the period of the administration of Lord Cornwallis. It was gradually replaced by the Sicca Rupee.

the Battle of Wandiwash. The Nawab of Karnatic began to borrow extravagantly from the servants of the Company and the case of the notorious Paul Benfield[14] who made himself exceedingly rich within a comparatively short time need not be mentioned here. The Company's servants began to administer the territories in the name of the Nawab. Even the revenue from the few districts ceded to the Company was very small. The real history of the British Rule in the Madras Presidency commences practically from the beginning of the 19th century after the final defeat of Tippu Sultan, the ruler of Mysore. It can, however, be stated that the currency difficulties continued during these years for we find in 1791 that the Carnatic Bank approached the Madras Government with a view to help them in solving its currency troubles. The currency difficulties of that time should be grasped so as to realise the real advantages that could have flowed to the Government and the people if the Carnatic Bank had been given the privilege to co-operate with the Government in circulating silver rupees. There were gold mohurs of Calcutta, the Madras pagodas, the Portonovos, the new as well as the old. There were also in the Government Treasury which was situated in the Fort Square gold coins such as the Venetians, the Mysore pagodas, and silver coins such as the silver dollars and the Maharatta

(14) When the question of the Nawab's debts was discussed in the British Parliament he purchased at least 10 votes in that august body to protect himself. *See* the Appendix I of this monograph for a brief history of this interesting personality.

rupees which were issued from time to time for re-striking at the Mint. When Tippu Sultan paid the indemnity in 1792 another flood of strange coins appeared in the Presidency. Besides the gold coins there were in circulation silver coins such as the Madras rupee, the Pondicherry rupee, the Sicca rupee, and the Bombay rupee. The rates of exchange as quoted in the Madras Courier (of 1st September, 1790), were fixed as follows. (15)

Gold.	*Star Pagodas.*
Calcutta Mohurs	100 per 430
Madras Pagodas	100 ,, 108 and
Portonovo New	117 & ,, 100
,, Old	116 & ,, 100
Silver.	
The Madras rupees	361 per 100
Pondicherry rupees	354 ,, ,,
Sicca rupees	355 ,, ,,
Bombay Rupeess	355 ,, ,,

As silver importation from Bengal increased silver began to depreciate in value and the rate of exchange fell to 383 Arcot Rupees per 100 star pagodas. The Madras Government in order to obviate these difficulties resolved to accept silver at the Government Treasury at the rate of 365 Arcot Rupees per 100 star pagodas and 12 fanams and 25 cash per rupee. This notification could not and did not, however, restore order and as time rolled on the multiplicity of coins increased and the rates of exchange fluctuated rather than remained steady

(15) Quoted by H. D. Love in his "Vestiges of Old Madras."

at the raté fixed by the Government. Both the people as well as the Government officers suffered endless grievances at this changing ratio between the diverse coins in circulation. The Madras Government clearly overvalued the silver. The proper remedy would have been to convert the different circulating media into the Arcot Rupees by heavy coinage and thus introduce uniformity of coinage.

A quotation from the Mint List of March, 1793 will give one an idea of the diversity of the coins in circulation—

Gold.		
Hydery Gold Mohurs	at	16 Arcot Rupees each.
Ahmadeen Gold Mohurs	,,	4 Mysore Pagodas each.
Shiddahu Gold Mohurs	,,	2 Mysore Pagodas each.
Hydery Pagodas	,,	4 & Arcot Rupees each.
Viceroyan Gold fanams	,,	16 & per Mysore Pagoda.
Raja Gopal Fanams	,,	31 per Mysore Pagoda.
Cotta Gopal Fanams	,,	33 ,, ,, ,,
Tellicherry Fanams	,,	20 ,, ,, ,,
Sultan Fanams ..	. ,,	13 & ,, ,,
Venetians ..	. ,,	Rupees five each.
Silver.		
Shampoor Rupees	. at	365 per 100 Star Pagodas.
Pondicherry Rupees	. ,,	382 & per 100 Mysore Pagodas.
Maharatta Rupees	. ,,	4 and per Mysore Pagoda.
Cornan Crowns ..	. ,,	2 per Mysore Pagoda.

The rate of exchange between the Mysore pagoda and the silver rupees was fixed at 12 and $\frac{1}{2}$ rupees per 100 Mysore pagodas. 365 Arcot rupees were fixed as equivalent in value to 100 star pagodas,

Thus the Arcot rupee minted at the Presidency Town began to gradually drive out the other rupees from circulation and became the standard silver coin of the Presidency.

The refusal of the Madras Government to co-operate with the Carnatic Bank in making the Arcot silver rupee the sole medium of circulation as was the case with the Sicca rupee in Bengal was highly impolitic. It only tended to prolong the agonies of the people and postponed the possibilities of early reform to a later date. During these years it could neither steady the rates of exchange nor succeed in introducing a uniform silver coin as the sole medium of circulation in spite of the successful attempts made by the Assaymaster of the Mint. The currency reform introduced in 1793 consisted in dealing with the various coins economically. The procedure adopted was to melt gold fanams of low touch with mohurs of high touch to save the cost of refining. Sliver below the rupee standard was coined into fanams. Lord Hobart, the Governor of Madras, declared that the coins which were not struck by the Hon'ble the East India Company's Mint with the Nawab's superscription should not be recognised in the Carnatic. But these measures could not succeed in introducing uniformity in the currency system. When gold coins became scarce in 1798 the Madras pagodas were once again issued and made current at the Fort Saint George.

Mono-Metallism adopted in 1806.

It was as a result of consistent disappointment in the three Presidencies that the Court of Directors resolved not to conduct any more dismal attempts at bi-metallism. It came at last to the conclusion that mono-metallism was the only possible solution for the currency troubles of the country and in 1806 was announced the momentous decision of the Company adopting silver mono-metallic standard as the basis of the currency system of the country.(16)

Lack of Uniform Standard in the different Provinces.

The adoption of uniform standard in the different provinces was not achieved as yet, nor were the attempts to maintain the double standard given up once for all by the Court of Directors. Prior to the centralisation of administrative authority in Calcutta every province was independent in the matter of currency and each province had its own individual coin. In the North-West Provinces, the Lucknow, the Benares and the Furruckabad rupees were in circulation as the standard coins, so much so, that the Bank of Bengal notes payable in sicca rupees could hardly circulate there. Regulation III of 1806 and

(16) It was just at this time that Lord Liverpool wrote his famous treatise "Coins of the Realm" advocating monometallism. Silver was selected as the standard of India as a result of his suggestion.

See the oft-quoted Despatch of the Court of Directors, April 15th, 1806—Articles, 17 to 21.

Regulation IV of 1807 attempted to fix values at which these were to be received at the Government Treasuries. But the matter of receiving " supplies from the other provinces became difficult as these coins had to be reminted in the province receiving these coins." It has already been related that gold was circulated and until 1818 the gold pagoda had great circulation when it was definitely replaced by the silver rupee as the standard coin. The Silver rupee of 180 grains eleven-twelfths fine was substituted for the gold pagoda in the Madras Presidency. The coinage of the gold pagoda was given up but until 1835 gold coins were issued and were received at all the public treasuries at such rates as were announced from time to time by different proclamations.

The Act of 1835.

It was not until a universal demand for a uniform currency was voiced before the Select Committee of the House of Commons of 1832 that any real steps were taken by the East India Company. Beyond passing mere regulations which vainly strove to combat the dreaded evils of multiple currency nothing substantial was done to solve the currency evils of the time, namely, monetary stringency and lack of credit media issued by banking houses on any large scale. Neither the convenience of the merchants nor the requirements of trade appealed to them. At last in 1835 it was declared by Act XVII that gold should no longer be legal tender payment.

Curiously enough it was ordered at the same time that the Mint should coin gold mohurs worth fifteen rupees, ten rupees and five rupees. This was done mainly to secure profits arising out of the seigniorage on gold coinage which was roughly one per cent. A notification was circulated in 1841 empowering the treasuries to receive the coined gold mohurs (those coined under the above provisions of the 1835 Act.) But the gold discoveries of Australia soon reduced the silver value of gold and the holders of gold coins in India took the opportunity of presenting their gold and converting them into silver for a higher value than what they could have obtained in the open market. Thus this notification caused great loss to the Government and in the year 1852 the 1841 notification was formally revoked.[17]

Token Currency.

Up till 1852 the Company's copper currency or subsidiary currency coins were never freely accepted in the different parts of the country. Though the Maharashtra area was occupied by the British in 1818 great difficulties were experienced in the popularising of the new copper currency of the East India Company. In Rajputana, the Punjab, and the North-West Provinces also similar difficulties were

(17) *See* the Financial Despatch of 2nd July 1852 of the Government of India to the Court of Directors. As gold in the Indian Treasuries began to increase above thirty lakhs it was urged that the 1891 notification should be rescinded. It was actually withdrawn by the Notification issued on Dec. 26th, 1852.

experienced. It was only in Bengal that there was some immediate success attending upon the introduction of the new copper coins. But even in Bengal there was a plethora of copper coins as the Benares Mint[18] and the Native Mints used to introduce these copper coins and the East India Company promptly considered it unwise to issue a plethora of subsidiary coins. So it ordered the issuing of a silver coin (the modern Two-anna coin) in the year 1837 to remedy the necessity of issuing a large quantity of copper coinage to meet the requirements of the people.[19] The use of silver coins as fractional parts of the rupee received further stimulus as a result of the encouragement of the Court of Directors in this direction

(18) *See* the General Financial Letter of the Court of Directors to Bengal No. 13 of 1836—12th October, 1836. The Benares, the Calcutta and the Saugor Mints introduced copper currency and roughly 87 millions of copper pieces were in circulation. They accumulated in great quantities at the Treasury and their value was greatly depreciated. Recent changes in silver added to this confusion and occasioned great embarassment. The measures undertaken were to close the mints for the coinage of copper to individuals. Copper was declared legal tender up to the sum of half-rupee. Silver coins were to be issued sufficiently to displace copper. A silver coin weighing 22 and ½ grains troy and of the value of two annas was to be put into circulation. "Measurers to exchange copper coins for silver were put into circulation. Measures to force copper coins into circulation must be given up." *See* paras. 12 to 13.

(19) *See* the Financial Letter from the Court of Directors to the Bombay Government—7th June, 1837. The Hon'ble the Court of Directors was always averse to the excessive issue of copper money. They preferred the use of silver coin to copper currency. Superabundance of intrinsically inferior money is undoubtedly an injury to the people if it is used in large quantities. It resolved that copper money should at the earliest moment cease to be legal tender for sums exceeding half a rupee and that a small silver coin be fabricated and circulated."

in 1848.[20] The political residents were also asked to impress on the minds of the Native Princes the desirability of a uniform currency all possessing the same intrinsic value.[21]

FAILURE TO ENLIST THE SERVICES OF THE BANKS.

Throughout this period the East India Company had not only vague notions as regards currency reform but failed to utilise the banks even though they willingly offered themselves to render signal service in popularising the selected rupee as the uniform coin of the country. A uniform silver currency could have been introduced if the banks undertook to popularise these coins. They only stipulated for the privilege of considering their notes as cash at the Government treasuries which the East India Company could easily have granted after taking adequate security from the banks to protect themselves from loss arising out of holding those bank-notes which could

(20) Owing to the excessive profit arising out of the minting of copper the Calcutta Mint generally indented for large amounts of copper. On 30th Dec., 1847, it ordered for 400 tons of copper. The Court of Directors observed that "the injunctions for the circulating of small silver coins were always not carried out as far as practicable," and that the Mint was supplying copper coins in excess of requirements for within two years about 1200 tons of copper were utilised for this purpose. The encouragement was due to the temptation it had to secure profits. The Court of Directors objected to this tendency and reiterated its wishes once more to supersede their use as much as possible by substituting silver coins as fractional parts of the rupees. *See* the Financial General Letter from the Court to Bengal, No. 18 of 1848, dated 16th May, 1848.

(21) *See* the Financial General Letter from the Company to the Government, No. 5, 1850, para. 14.

not be converted into legal tender currency immediately on the mere asking for encashment.

PARALLEL DEVELOPMENT IN MATTERS OF CURRENCY AND BANKING.

This record in currency matters so summarily set forth has very great significance for us to-day and furnishes us evidence that in banking and currency matters a parallel development is essential. Without adhering to sound currency or a uniform currency any country cannot hope to achieve the miracle of building up of a sound banking structure. It is the duty of the banks to administer the floating capital of the community and build up the structure of credit adequate to the legitimate needs of society on the other side. This credit must be issued in terms of currency which are fixed by the State. Without fixity in currency (*i.e.*) without a proper measure of value and a generally acceptable medium of exchange banking development cannot be properly thought of. Currency is the basis of a sound economic system and without stable currency a parallel development of banking would not be forthcomnig. More complete banking facilities could have been built up by the semi-state banking agencies at least, if only the defective and inefficient currency system had been rectified earlier than the year 1835. Up till 1835 the currency was a multiple currency consisting of gold mohurs, silver rupees, imported silver coins, sysee silver from China, bank-notes and

cheques, subsidiary copper coin, treasurer's deposit receipts, mint certificates, treasury bills and gold ingots imported by the banks. This hopeless confusion and unbusinesslike inelasticity was legally rectified in that year. But even after that year gold and silver were alike admitted into currency circulation.[22] Though in theory the monetary standard consisted of silver owing to the shortage of silver production after 1850 the banks in Bombay had to satisfy the demand for currency by importing gold ingots for circulation in this country. The principles of a uniform and sound currency were hardly given effect to during this period.

SOUND CURRENCY AND SUCCESSFUL BANKING GROWTH.

The existing banks could have materially assisted the Company if the latter solved the currency question first and allowed the banks to co-operate with it in the matter of issuing safe, sound, convenient and elastic paper currency. The currency history of the period under review amply demonstrates the truth contained in the following statements that a sound

(22) The following notification makes this fact clear. A notification had to be issued forbidding the receipt of gold fanams into the Malabar treasury and discouraging the circulation of any other coin except the one fabricated by the Company. Financial Consultation, Ft. William, 3rd June, 1846, No. 5. *See* also the Financial General Letter from the Court of Directors to the Government of India for understanding the state of currency in the N. W. Provinces. No. 5, 1850—18th June, paras. two to fourteen. *See* the Financial General Letter from London to the Governor-General-in-Council.—State of the Currency in the Punjab, No. 28th—1851.

currency system is a *sine qua non* for banking growth and development. An approved and uniform circulating medium removes all the principal difficulties in the establishment of banks. Though banks might exist they would fail to make any headway if the circulating money is of variegated origin and chaotic condition.

Banks are an important apparatus to the society and it is the duty of these banks to issue credit instruments which enable the holders to exchange them for commodities which they require. These credit requirements or means of payment represent the standard currency of the country. Cheques, bank-notes, and bills of exchange are all credit instruments which promise to pay *bona fide* standard currency. This task becomes impossible when a parallel standard exists in the currency organisation of the country. The banks would find it difficult to issue such credit instruments which have universal currency in all parts of the country. The whole business of trade and exchange in a pecuniary society suffers a good deal if the metallic currency or representative credit fails to equal the volume of goods and services produced on the other side for exchange purposes. The money and credit exchangeable for commodities and services should be just equal neither less nor more so as to disturb the equilibrium. It is true that in a dynamic society both these vary but the inevitable tendency would be to equal each other in volume. The main economic service of

the banking organisation is to adjust, to guide and to keep in flow the credit instruments needed for exchange purposes by individuals desiring to exchange commodities and services. The total volume of credit that is created arises out of hundreds and myriads of banking transactions with different individuals desiring to exchange commodities and services. It is often the result of no deliberate policy. Just as commodities and services are being produced some for personal consumption alone and others for exchange, so also the case is the same with credit but it is the duty of the banks to restore this equilibrium point always between the stream of goods and commodities on one side and the credit and money in the other stream on the other side. To efficiently discharge this guardianship the banks must know everything regarding the actual output of money, goods, and services. The mere provision of this knowledge would not by itself solve the problem. The solution can be reached by consistent and intelligent guidance of the banking policy which leads to the creation of just enough credit to meet the needs of society. Lacking such intelligent guidance the people would generally have recourse to their own methods and use one kind of currency or other as did the people of Bombay during this time. It is stated "that as a crude remedy for the defects of silver currency gold ingot currency was used by the people of the province of Bombay."[23]

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(23) *See* B. R. Ambedkar.—"The Problem of the Rupee"—p. 42.

The Historical Parallel of the U. S. A.

But the problem of furnishing a sound and stable currency for such a vast country possessing a wide area composed of people of different interests and living in different stages of economic progress was no mean one. If there is any historical parallel or precedent furnished by any other country it is the United States of America. If we examine her currency organisation it was only by 1913 that a stable currency system—safe, simple, convenient, and elastic at the the same time was evolved. In the light of the knowledge we have of the analogous experience of the United States of America there is no use of blaming the East India Company and its dual sources of authority for not succeeding in solving the currency problem of the country.

The Central Bank of Issue.

It is with the creation of a Central Bank of Issue that credit and currency can be created in adequate volume to suit the legitimate needs of the people. Comparative stability of the purchasing power of the money can be secured by the Central Bank alone. Under its intelligent guidance the general prices would not become subjected to ruthless disturbances. Interest rates would become not only equitable but become lowered all throughout the vast country. Ill-regulated and inefficient currency would no longer exist. [24]

(24) For a wider discussion of this subject see the chapter on the Central Bank of Issue, in my Present-Day Banking in India—3rd edition.

CHAPTER VIII.

A GENERAL SURVEY OF THE PRIVATE BANKS.

The Services of the Private Banks.—Exaggeration of the services of the Early European Banks.—*Viz.*,—The General Bank of India.—The Private Banks of our Period.—The Union Bank of Calcutta.—Reasons for its early success.—1837—the turning point in its history.—The unwise increase of capital and its consequences —Repeats the same mistakes of the Bank of Bengal.—Exchange operations.—The private Banks of the North-West Provinces.—The magnitude of their operations.—No influence on trade and agriculture of the country.—Attempts at Banking Legislation.—The reason why banking legislation was given up.—Financial Bad weather.—The monetary crisis of 1845.—The Great Sepoy Mutiny of 1857.—The characteristics of monetary stringency.—Government help in times of monetary stringency.—The essential defects of the then Banking System.—The main advantages flowing out of the banking system.—(*a*) The popularising of the Bank note-issue.—(*b*) The granting of loans and the supplying of specie at moderate rates of interest.—(*c*) Falling rates of interest on Government loans.—The speculative spirit was not generated by the banks.

The Services of the Private Banks.

We have tried elsewhere to assess independently the services performed by the Presidency Bank of Bombay. We have already pointed out that with a little more vision and imagination on the part of the Government the Presidency Banks at least could have been made more useful than what they actually were during this period.

Exaggeration of the Services of the Early European Banks.

What was the service done by the other private banks of this period ? A glance at the list of banks prepared by me shows that the Bank of Hindostan, the Bengal Bank, and the General Bank of India belong to the period immediately preceding our period of study. In the voluminous Selections of the Calcutta Gazette a mass of information lies scattered here and there. Mr. G. P. Symes Scutt has similarly studied the early history of the Presidency Bank of Bengal in a careful manner. The causes leading towards the formation of these banks and a description of the qualitative work of these banks can be gained by a careful study of these sources. A recent writer who comments on the work of these three early European banks expatiates on these self-same points making a reference to the Government manuscript records of this period. But as regards the quantitative aspect and nature of the banking operations there is not a single balance sheet of

any of these banks. While newspaper eulogies and the bank's own statements are freely reproduced indicating the work of the General Bank of India and undue praise is showered upon it for its supposed services during the brief period of half-dozen years the really vital elements which go to make the constitutional framework of the Banks have not been elucidated.[1] It might be indeed true that the rate of discount might have been lowered from 12 to 10 per cent. It might have been useful in supplying the silver bullion requirements of the people. It might have conducted some banking operations gratuitously. It might have been appointed the Government banker. It might have introduced several innovations in the technique of the banking practice of this period. But the history of the bank would not be complete if these statements are merely recounted from the newspapers of this period. If the General Bank were appointed the banker of the Government what was the nature ot the work turned out by the Bank for the Government? If the General Bank was popular—very popular on account of its Government relationship and if it was very honest and businesslike in management why did it fail to reach the dividend-paying stage? There is no description of the way in which it financed the foreign trade of the country. Without any idea of its loans, discounts and investments the above description

(1) *See* H. Sinha—"Early European Banking in India," p. 73.

of the utility of the General Bank appears *stale and contradictory.* "Efficient bank management" and "lack of dividends" are evidently contradictory terms. The first would and must lead to the second. Any absence of the second feature means necessarily the lack of the first phenomenon. Immersed in the business of making lengthy quotations and extracts from the bank's own description of its work this important piece of logical reasoning seems to have escaped his attention. Finally, much is made of the laudable and heroic efforts made to discover the work of the newly reorganised General Bank in 1791. No such painstaking search is after all necessary for Carey, the distinguished writer says "that even the bank building of the General Bank was sold on May 2nd, 1792."(2) The date of the formation of Bengal Bank still remains unknown and no detailed history of the Bank of Hindostan has been written as yet. It is almost impossible to say anything about these aspects as the necessary material does not exist in *this* country.

THE PRIVATE BANKS OF THIS PERIOD.

Coming to our period of study 1800 to 1857 it has already been pointed out that there were only four banking institutions by 1835 and the conditions of banking are well portrayed in the prospectus of the

(2) *See* Carey—The Good Old Days of Hon'ble John Company, Vol. I, p. 162. The subsequent references in the Calcutta Gazette were solely with reference to the liquidation proceedings and payment of dividends.

East India Bank which was projected in 1836 by a body of merchants in London. The Union Bank and the Agra Bank were the only other non-Presidency Banks which were existing at that time. These alone had a continuous career for a time and the main facts of their work are pointed out elsewhere. It is indeed true that the Bank of Hindostan had an inglorious existence till 1831. It was unfortunately eclipsed by the Bank of Bengal. Owing to its being identified rather closely with the Agency House of Alexander and Co., both had to sink together and perish in "the awful crisis of 1831." The Commercial Bank was similarly sponsered by the Agency House of Mackintosh and Co. The Calcutta Bank which was ushered into existence by the efforts of Palmer & Co. also worked for a short period of a few years and both of them wound up their business to make room for the Union Bank of Calcutta.

The new Agency Houses organised after 1831 could not take up banking business as an accessory trade on any important scale. Even if they had attempted to accomplish this, the Civil and Military Officers of the Company and the depositing public who were the chief sufferers in the banking crisis of 1831 would never have entrusted their savings to these new institutions. It is a matter of common knowledge that a burnt child dreads fire. From 1833 onwards private remittances on behalf of the Company's servants became a conspicuous feature in the money market. It can be safely concluded

that they were remitted to England instead of being deposited in the Indian banks of this period.

THE UNION BANK OF CALCUTTA.

But during this period of our study we find that certain facts relating to the Union Bank have not been fairly represented by the previous writers. As a chronological account Mr. C. N. Cooke's book is indeed of great value but the main duty of the historian ought to be the inferring of valuable lessons which those who care to study can easily grasp. A repetition of the chronological facts would be tedious and every attempt would be made *to select only those aspects which have been neglected by the previous writers* or those events whose significance has not been properly understood by the previous writers. The Union Bank of Calcutta as its name signifies arose out of a fusion of the existing banks of the Agency Houses. It could secure the goodwill of the wound-up banking institutions. As such, it had a fair opportunity to forge its way immediately to the fore-front. Just as the General Bank of India could easily dominate the banking arena or the money market in Calcutta in the earlier period so also the Union Bank soon became the leading institution in the money market almost challenging the dignified prestige of the Presidency Bank of Bengal itself. It is indeed inexplicable why most of the writers do not draw attention to this fact. Brunyate is undoubtedly aware of it but he does not mention

anywhere this particular feature and try to account for this phenomenon.

REASONS FOR ITS EARLY SUCCESS.

The main reasons why this Union Bank could succeed in face of the competition of the older quasi-state bank must have been the following. First of all, it is the paid-up capital of a Bank that determines the standard of credit which any bank is entitled to receive. The Union Bank gradually raised its paid-up capital till it reached the colossal amount of Sicca Rupees 1,00,00,000. Secondly, it had a definite field of business thrown open to it, namely, the foreign exchange work which was not and could not be undertaken after 1836 by the Bank of Bengal. This must have afforded it ample facility to obtain the lead in the money market.

The third reason for its superiority was the efficient manner in which the business was conducted in the early years of its operations. Discounts and loans were promptly made and such satisfactory and expeditious procedure scarcely existed at the Bank of Bengal. It was as a result of this dilatory manner of its work that the customers grew dissatisfied of the way "in which routine business was badly performed." About 1700 shareholders drew in a petition remonstrating against the tardy manner in which the bank's work was conducted and signified their intention of appointing an outside banking

expert. A non-official mercantile secretary was appointed in spite of Government protests.

The fourth reason which made the Union Bank the towering personality in the money market was its freedom from losses in the early years while the contemporary Bank of Bengal suffered a loss of nearly Sicca Rupees four and half lakhs which were exclusive of the loss arising out of the forgeries of one Rajkissen Dutt. The Bank of Bengal soon proposed to raise its capital to Rs. 1,00,00,000 so as to be on a par with the Union Bank and successfully compete with it. There was in fact a race in the matter of capital expansion and during 1836 to 1839 both banks increased their paid-up capital. The Bank of Bengal sought to extend its field of operations and secure freedom of action. It proposed to undertake the civil and military payments in the Presidency town on behalf of the Government but all these proposals were negatived. This privilege was not granted till the year 1862 and perhaps was a part of the compensation to the bank for the loss of its privilege to issue notes.

Finally, no other proof is required than that of the attitude of the Bank of Bengal towards its rival institution. It has been related elsewhere how the Bank of Bengal refused to consider the notes of the Union Bank as cash and never reissued them in spite of entreaties on the part of the Union Bank or its mercantile supporters.

1837—The Turning point in its History.

So long as the bank's capital was proportionate to its business and no new lines of business opposed to sound and conservative banking were taken up the Union Bank met with considerable success. In 1831 a dividend of six per cent. was declared and the second half-yearly dividend in 1835 was ten per cent. This however was not the highest rate of its dividend. In the second half of 1836 it paid twelve per cent. In 1837 it paid a dividend of fourteen per cent. Then occurred the turning point in its history. There was the increment of its paid-up capital and the rate of dividend fell to twelve per cent. in 1838. Though it carried out new lines of enterprise and opened new avenues of business it never regained its previous prosperity and successively the rate of dividend fell to seven per cent. till it had to suspend payment in 1848.

Unwise increase of capital.

Two facts stand out clearly. As more capital was improperly called in for there were very few bona-fide borrowers of good standing at that time new items of business were taken up and by 1839 which was practically the turning point in the history of the Union Bank it began to strike "bad patches." It was anticipated by the shareholders that the rate of dividend would fall as a result of the huge increase of capital. The rate of bank dividend is not dependent purely on the capital of the Bank but the rapidity

of its turnover is the main criterion. A large capital is no less a nuisance to the bank than a small one. Touting for business and the lowering of the banking standard are the undesirable consequences of a large capital which is totally disproportionate to the business needs of the people whose interests are catered for by the Bank. A small capital prevents the Bank from lowering the rate of interest and undertakes wider banking opeiations. Both are undesirable evils. The presence of a large capital is the more dangerous of the two. This is the salient lesson which the subsequent history of the Union Bank from 1838 down to 1848 teaches us so impressively.

ITS CONSEQUENCES.

Anxious to find proper work for the Bank's increased capital the sound canons of prudent commercial banking were scattered into thin air. Advances were often made to the indigo houses on the deposit of title deeds to factories and assignment of annual produce. This was in direct contravention of the established tenets of commercial banking which emphasise the danger and impropriety of making loans on mortgage of real estate or any other fixed property. There is a world of meaning in the characteristic expression that to be a successful banker all that is needed to "to realise the enormous difference between a bill of exchange and a mortgage."

Repeats the mistakes of the Bank of Bengal.

Cash credits were granted on the personal security of the borrower with the addition of collateral security, real or personal. The extension of the time limit for advances was in direct contravention of the bye-law which prevented the making of a loan for a further period than three months. Loans were granted on the understanding that they would be renewed. Loans to collieries, silk filatures on security of coals and goods at their depots and title deeds of mines were granted indiscriminately. The same optimism was extended in the matter of loans to borrowers on buildings in Calcutta. The Directors of the Bank helped themselves to secure bank money for their own undertakings. Loans were granted to few favoured individuals or indigo houses and their bills (3) were purchased in 1847 even after it was fully known that they became bankrupt or insolvent. "History repeats itself" says the adage and the

(3) The difficulties experienced by the Bank of Bengal were not heeded by the Union Bank. The granting of loans over and above the maximum limit even against the opinion of the Government Directors was one of the mistakes committed by the Bank of Bengal during this time. Indigo concerns were taken up as collateral security after advances have become locked up. Immovable property was used as the basis of the loan against the regulations mentioned in the Charter itself. The management of the indigo farms had to be undertaken on the default of the borrower. Thus there was the tacking on of trade with banking in the same hands. Though the Bank of Bengal did not fail still its relations with the Alexander and Co. are an eye-opener. The dangerous consequences resulting out of placing all eggs in the same basket and making loans on immovable property are amply illustrated by the history of the Bank of Bengal during these years.

events of 1831 were only repeated on a small scale by the failure of the Union Bank in 1848. The Union Bank refused to learn any lessons from the crisis of 1831. It had consequently to pay the inevitable price for its folly.

EXCHANGE OPERATIONS.

The tale of its mismanagement would not be complete without a reference to the exchange operations of the Bank. The loss sustained under this heading aggravated the situation. Then as now, the true principles upon which a bank could conduct safe exchange or remittance business were simply these. It should undertake to grant a bill when it has previously funds there where it would have to be paid without loss by a coin or bullion transport and refuse bills whenever these terms cannot be offered. Conducted in any other manner the exchange operations would soon partake of the "nature of gambling or time bargains on the stock exchange." Such remittance operations can be done by a bank which can afford to lock up capital for long periods with impunity. A bank which hopes to flourish solely on short term loans and discounts and issues notes should stand aloof from exchange operations which are liable to great fluctuations which make it difficult to recover capital easily. Such difficulties as these must indeed have been of a more grave character in those early days. The Court of Directors who were aware of these possibilities and impressed with the difficulties

of conducting successful foreign exchange along with commercial banking refused to sanction the extensive privilege of issuing notes to the exchange banks started in London.[4]

The three glaring mistakes which the Union Bank committed in the matter of the exchange business must now be referred to. The first mistake was the drawing of bills at ten months' date even after four months' sight was not required for the legitimate purposes of trade. Secondly, bills of insolvent houses were never rejected. No security even was taken from the indigo House, Cockrell and Co. when ten months' bills of exchange worth £130,000 [5] were taken up by the Union Bank. Finally, it did not realise that exchange operations, then as now, meant only small gains and great risks. The privilege of bank post-bills was abused freely and with such dubious means exchange was purchased in the Calcutta Market. Bills of exchange were purchased by issuing their long-dated post-bills. Another method by which the London credit was formed was by taking credit from its borrowing customers who could draw on their own credits in London. [6]

(4) *See* the Letter of the Court of Directors to the Committee of the Privy Council for Trade, 30th April, 1840. *See* also the letter of the India Board—18th June, 1840, with reference to the proposal of the Bank of Asia to have the privilege of note issue and conduct exchange business at the same time.

See the Parliamentary Paper with reference to the Projected Bank of Asia.

(5) *See* the Calcutta Review, January-June, 1848, Article on the Commercial morality and commercial prospects in Bengal, p. 184.

(6) *See* the pamphlet of J. C. Stewart condemning Mr. W. P. Grant's statements. A copy of this exists in the Imperial Library.

Against this foreign credit the Union Bank generally drew without itself parting with cash for or in payment of bills to meet their own drafts.

The Private Banks of N. W. Provinces.

Most of the other joint-stock banks belong to the N. W. Provinces. Though a chronological account of their work has been furnished by previous writers the most important points have escaped their attention. Only the pamphlets available in the Imperial Library seem to have been made use of by the previous writers. Too much attention is devoted to the failures of the Benares and the Cawnpore Banks.

First, in order of priority, the Agra Bank or to give it its full name, the Agra and the United Service Bank, was started in the fag end of the year 1833 with its head office at Agra. Just as the Union Bank arose out of the Agency Houses at Calcutta the Agra Bank arose out of the debris of the Agency Houses which had ramified connections even in the mofussil places. Originally it confined itself to the purchase, sale and negotiation of the bills of exchange, discounting bills, issuing notes, lending money on security of individuals and of personal or real property, granting cash credits, purchasing and selling coin and bullion and Government securities receiving deposits at the payment of interest and undertaking such other business as is usually done by bankers.

The Magnitude of their Operations.

To facilitate its exchange operations with London and other places of India it was forced to open branches in London, Calcutta, Bombay and Madras. At the time Mr. Allen wrote his memorandum neither the Agra Bank nor the N. Western Bank had any branches in China. But by 1854 the Agra Bank began to open branches in Canton and in 1858 the Shanghai branch was opened. The head office of the Agra Bank was removed to London in 1858 and it soon became the most important of the exchange banks of North India having establishments in Edinburgh, Sydney, China, Kurachee, Lahore, Amritsar and the Presidency Towns of India. The other mofussil banks could not hope to out-distance this bank and their belated start was partly responsible for their inability to compete effectively with the Agra Bank. Three of these six banks failed during the period of our study. While the rest survived the 1864 to 1866 crisis they are now no longer in existence. The following table gives us an outline of their services to the public.

Col. I. Name of the Bank	Col. II Date of establishment.	Col. III. Advertised capital (7) July, 1847.	Col. IV. Deposits.	Col. V. .. .. Expenses.	Col. VI. Dividends.	Col. VII. Cash Reserve.	Col. VIII. No of shareholders.	Col. IX. Loans, credits and bills.
		Rs.	Rs.	Rs. a. p.		Rs.		Rs.
The Agra and United Service Bank.	1833, Agra.	70,00,000	38,12,282	1 2 11	12%	4,30,627	596	86,19,417
The North-West Bank.	1844, Meerut.	30,00,000	10,70,221	1 5 3..	10%	1,96,232	136	25,05,890
The Delhi Banking Corporation.	1844, Delhi.	21,00,000	4,21,750	0 9 0..	9%	1,20,487	135	17,46,166
The Simla and Umbella Bank.	1844, Simla.	12,00,000	1,26,041	0 15 7..	8%	95,955	81	8,01,328
The Cawnpore Bank	1845, Cawnpore.	20,00,000	1,15,049	0 10 6..	10%	76,127	73	7.10,000
The Benares Bank(8)	1845, Benares.	12,50,000	47,617	1 3 11..	11%	37,736	41	4,00,381

(7) The proportion of shares held by the natives of the country was very small indeed. Only 26, 6, 10, 5, 5 and 3 individuals were the native shareholders in the six banks of the province. One salutory feature which these banks pursued was the frequent publishing of the lists of shareholders without the actual number of shares held by them. Again there was a limit to the shares that could be held by the shareholders and to minimise the influence of the big capitalist shareholders it was laid down in all cases except the Simla Bank that each shareholder had one vote for one share, two for five, three for twelve, four for twenty, and one additional vote for every twenty shares. The transfer of these shares was subject to the will and permission of the directors. The Banks reserved to themselves a prior lien on the shares for debts due to themselves. The shareholders had power to decide matters of general policy and had to meet twice a year.

(8) The directors of all the banks were to meet twice a week, act gratuitously and the military servants of the Company were generally elected for helping the Secretary in the management of the banking business. Barring the Benares Bank others made provision for half-yearly election of directors whose number ranged to nine and the share-qualification limit was fixed as low as one share. All of them had to act gratuitously just as the Directors of the Presidency Banks did. The Government and mercantile directors of the Presidency Banks began to receive Rs. 25 for attending the weekly meetings of the Board since 1856 only.

No influence on Trade and Agriculture.

It is apparent from the previous table that the Banks were not exercising any great effect on the trade and agriculture of the country. The first four Banks selected loaning to the Company's servants as their proper field and the last two alone undertook to make advances to traders. While the first four banks had cautious and conservative commercial banking coupled with foreign exchange business as their ideal the last two banks did not even incorporate such regulations with reference to loaning against real property. While the organisation, management and the nature of banking business left no scope for any unwise handling of funds the Court of Directors became apprehensive as regards the soundness of their position. With the view to provide restrictive legislation akin to "the strait jacket" which the 1844 and 1845 Acts did in the matter of the English, Scotch and Irish banking, the Court of Directors wrote to the Secretary of the Government of the N. W. Provinces to furnish general facts as regards the operations and detailed accounts of these banks on the following points communicated in the letter. Such general information was required in the case of every Province and its banking institutions with the view of enabling the Court of Directors to arrive at a decision as regards the necessity of passing banking legislation.

ATTEMPTS AT BANKING LEGISLATION.

Firstly, it required detailed information with reference to the shares held by the people and the Company's servants. Somehow the view that bank shares were being held by its servants for purely speculative purposes entered into its calculations.

Secondly, it required information about the nature of the occupation of the different directors of the banks. It was under the impression that the Company's servants who were the directors of these Banks were neglecting their duty towards the Company in their zeal to perform efficiently the work of the Banks. It was not realised that the nature of the banking operations was not so diversified nor were the clients of the banks of those days so very numerous as at the present day. Loaning was the sole business and this was done within one or two hours a week. With the bye-law that preference should be given to the shareholders in the matter of loaning to an outsider on an equally good security, the transaction of loaning was reduced to a very simple affair. The modern complexities of evaluating the nature of the securities offered as collateral did not exist at that time. Mere rule of thumb methods guided their operations. Government securities and chartered bank-shares were the only kind of securities on which bank loans were freely granted at that time.

The third point of inquiry was the question of publicity. What was the amount of publicity which

existed as regards their operations? What should be the legislative measure compelling the banking institutions to make comprehensive publicity of their dealings? It was not realised that the banks out of their own free will and accord were voluntarily publishing their accounts. Compared with the modern banks their attitude must be considered liberal. They have, unlike the modern banks, always disclosed the names of the shareholders. However, they wisely withheld the publishing of the actual number of shares which the different shareholders held as their stock.

The next point of inquiry was directed towards "the exchange operations which were supposed to be absorbing three-fourths of their business and capital." As these could not be published, the published accounts would not be truly representative of their real position. As no ruinous or doubtful speculative exchange operations were conducted this fuss for prescribing rules and restrictions was interpreted more or less as an unpardonable over-anxiety on their part rather than any well-meant protection to the banks. It was opined that it would not enable them to do much good to commerce if their exchange operations were to be restricted.

Reason for the abandonment of its attempts.

Finally, it was the considered opinion of the Court of Directors that the Banks should not issue

notes as the Indian public had no necessity for using them. Secondly, the banks might fail to keep a proper proportion of bullion or cash against these notes outstanding. The advisability of legislating on the proper maintenance of a cash reserve suggested itself to the Court as a very desirable method of giving protection to the depositors and the note-holders. But here again the good intentions of the Court became thwarted by actual facts. Firstly, no notes were being issued on any important scale by any of the private banks existing at that time. Long term loans were not granted with the help of short-term deposits. Borrowing short and lending long would be disastrous but it was short-term loans on good realisable security within the easy reach of the Bank that were made. As loans on shipping documents and other doubtful securities were not considered as desirable there was indeed no need for any restrictive legislation as Mr. Allen suggested. " Unrestricted banking with unlimited issue of paper " which is usually productive of so many evils did not exist at that time. He was of opinion that the Banks' request for helpful legislation should be granted. The Banks requested legislation in three different directions. Firstly, they required permission to sue and be sued in the name of their officers. As this was granted to the Union Bank they required a general act embodying this useful privilege. Secondly, they required the omission of the insistence of auditing by the

banks. In the absence of qualified auditors this insistence on proper auditing by paid officers would be meaningless. Thirdly, they pointed out the necessity of installing a machinery for the registration of mortgages and the priority of this registered mortgage over all other mortgages was also to be granted. This would certainly have helped the Banks while they were freely lending on the mortgage of lands, building and real estate. Similarly, the other Provincial Governments replied to this general questionnaire addressed to them on the topic of banking legislation. (9)

It is indeed unfortunate to find that these well-meant efforts for enacting banking legislation fizzled out and barring the 1852 notification which prohibited its servants to work as bank directors nothing further was enacted in the line of helpful legislation.(10) Till 1860, the principle of limited liability was not extended to the banking companies. Nothing was

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(9) *See* the General Financial Letter to the Court from Bengal—Lord Hardinge the Governor-General advocated that no steps towards banking legislation should be taken for the banks were hardly conducting genuine banking business and helping trade to any extent. It was as a result of his suggestion that the Court of Directors gave up their attempts in the direction of detailed legislation.

(10) *See* the Notification of the Government of India—28th May, 1852. "The most noble the Governor-General-in-Council is pleased to notify for general information that under instructions from the Court of Directors all servants of the East India Company whether Civil or covenanted or uncovenanted are strictly prohibited from taking any part in the management of banks or any other trading companies except as simple shareholders; the only exception to the rule being in favour of ex-officio directors or Secretary of the Government Bank at the three Presidencies." By order of the G.-G.-in-Council, F. J. Halliday, Secretary to the Government of India.

specially designed to protect the interests of the depositors. Even now the situation is not very much improved. Until something is done to instil confidence in the minds of the depositors it will be hard to popularise the bank account.[11]

Financial Bad Weather.

The absence of legislation meant full freedom to the bank officers to conduct banking operations according to the quantum of their own knowledge. When these erred in the wrong direction there were occasional failures. The most important commercial debacle of the early thirties of the nineteenth century is the only one that is usually referred to in text-books on Indian banking. During the period of our study there were as many as three important crashes of banking houses causing untold suffering to the members of the money market. At other times there used to be acute monetary stringency felt in the Calcutta and the Bombay money markets.

The failure of Palmer and Co. (of Hyderabad fame) in 1819 caused a stringency of credit and adversely affected the mercantile credit of the period. The most tremendous crash of the Agency Houses during 1831 to 1833 cannot be better described except in the picturesque language of Macaulay who landed in Calcutta in 1834. Commenting on its important

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(11) *See* my Present-Day Banking in India—3rd edition. Chapter on Banking Legislation.

effects on the social life of Calcutta he remarks that the "failures ruined one half of the English Society in Bengal and seriously injured the other half. A large proportion of the most important functionaries here are deeply in debt and accordingly the mode of living is now exceedingly quiet and modest. Those immense subscriptions, those public tables, those costly entertainments and equippages of which Bishop Heber and others who saw Calcutta a few years back say so much are never heard of."

The Monetary Crisis of 1845.

The monetary stringency of 1845 in[12] the Bombay money market was so grave that the Government had to grant loans to the Bank of Bombay to tide over this period and a bitter controversy ensued out of the firm resolve of the Bombay Government to help the bank. Three out of 10 lakhs were actually shipped from Calcutta to Bombay to assist the Bank. The Bombay Government scored a great moral victory over the Court of Directors as well as the Supreme Government by reiterating the sound gospel of the duty of the Government to rescue the Banks which are being hard pressed by unfortunate circumstances over which they cannot hope to exert any control.

Unexpected financial pressure arising out of a host of unfortunate causes was responsible for the

(12) *See* the Financial Consultations of the Government of India—13th February, 1846, Nos. 35 to 45. The confidential memorandum of Willoughby (No. 36) explains the situation briefly.

application on the part of the Bank of Bombay for Government help. Mr. Willoughby while reviewing the unfortunate circumstances leading to financial stringency recommended strongly the granting of a loan to the Bank of Bombay by the Bombay Government. [13] The Supreme Government laid the blame at the door of the management of the Bank of Bombay and strongly condemned the making of a loan to the Bank but suggested internal reorganisation as the best remedy to prevent such stringencies in the future.

In order to remove the mistaken opinion on the part of the Supreme Government that the pressure was due to mismanagement of the Bank of Bombay, Mr. Willoughby promptly wrote his well-considered memorandum pointing out the real causes for the pressure over which no sound bank management could indeed have enabled it to overcome the crisis. The scarcity of Sycee Silver in China and consequently reduced imports into Bombay, the large influx of bills as a necessary result drawn in China on London, deficient harvest in most parts of the Presidency which rendered goods unsaleable and the rumours created by the war with the Punzab chieftain, the large remittances of specie to Scinde to finance the war, the loss of bullion due to the sinking of a ship

(13) *See* Indian Financial Consultation 13th February, 1846, No. 36. "It would be wise and politic and conducive both to the interests or the commercial community and the advantage of the State that the Government should comply with the application at a rate of interest equal to the highest which the Bank may be exacting from others and on a deposit of Government paper security."

proceeding from Bombay to China, the large speculations in opium and the injudicious management of the Hongkong branch manager of the Oriental Bank were responsible for the undue pressure and as the Bank could not sell the Government securities in such a panicky market without fear of loss chose the alternative of seeking the aid of the Government. Mr. Willoughby thoroughly examined the financial state of the Bank and realising its strong position (*viz.*) having assets of Rs.5,381,678 over its liabilities, recommended the making of a temporary loan. The wisdom of his suggestions, did not consist in practically insisting upon the salient rule that the Government has to protect the banks' credit against losses due to unfortunate causes over which the Bank has no control but on the wise stipulation that internal reform of the bank management should proceed simultaneously so that excessive investments in Government secruities were to be given up and a limit was to be fixed for individual loans and finally to divide the depositors into three classes (*a*) those depositing 1 lakh and upwards, (*b*) those depositing Rs. 50,000 to 1 lakh, (*c*) those depositing from under 50,000 rupees. This division would enable the Bank to know what aggregate deposits can be made use of in banking operations. It has already been recorded elsewhere how the Bank retrieved its position rapidly and repaid the Government loan and soon after secured a liquid position to conduct banking operations safely. It is indeed

true that this episode would be entirely valueless now but for one fact. The Supreme Government's contention that "Government aid was unjustifiable and that the proper security for the Bank lay in its complete independence of the aid of the State" is no longer adhered to by any of the modern Governments. The practical suggestion of the classifying of the depositors into three classes in order to enable the Bank to lock up funds with impunity is highly valuable and modern banking legislation which differentiates the time from the immediate or current deposits is based on this understanding. A lower cash reserve is stipulated for the time deposits as compared with the fixed deposits of the Bank.(14) The necessity of carefully keeping a sufficient reserve against current accounts is to be understood by all modern banks and Mr. Willoughby must undoubtedly be given some amount of credit for emphasizing this cardinal principle of sound bank management.

The Great Sepoy Mutiny.

The Great Sepoy Mutiny of 1857 led to important consequences on mercantile credit even in Calcutta which was not, however, the centre of rebellion. The distrust of the people had an important effect on bank credit and even unexceptional security offered by the people as collateral for advances was refused. The Government credit fell so low that four per cent.

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(14) *See* the F. R. Banking System of the U.S.A. The different National Banks have to keep 13, 10 and 7 % against current deposits and a uniform 3 % against time deposits.

Government paper was quoted at a discount of twenty-five per cent. in the Calcutta money market. The lack of safety not only induced the bank directors to check the outflow of money but a European guard was placed to protect the building of the Bank of Bengal. The insistence on the part of the people to take silver in exchange for bank-notes was so heavy that the cash percentage of the Bank fell to a low limit of 22·5 per cent. and the charter regulations had once again to be broken during these extraordinary times.

THE CHARACTERISTICS OF MONETARY STRINGENCY.

Some of the usual features of financial bad weather have been commented on already. The restriction of mercantile credit with its consequent effect on the trade of the country was the most glaring consequence. This generally forced the rates of interest in the bazars to a high figure such as were witnessed in 1831 to 1833 period. Twelve to fifteen per cent. rate of interest was charged for what little accommodation that could be obtained in the native bazars of Calcutta. Lessened credit resources meant lower prices for produce. With the derangement of business heavy losses had to be borne usually on shipments either outward or inward. Bank deposits were generally withdrawn and even bank shares of the Chartered Banks fell in value. Government securities were no exception to this rule and

a heavy discount was attached to their value. Even private people charged very high rates ranging from eight to ten per cent. on the security of Government Paper.

GOVERNMENT HELP.

Instances can be quoted when the Bengal Government came to the rescue of the Banks and lent money on the deposit of its own or other securities. When a run was made upon all the Agency Houses of Calcutta at the time of the failure of Palmer [15] and Co. in 1829 one or two of them made an application to Lord William Bentinck who readily responded to their request in 1830. In course of two months these houses were able to pay off nearly a million sterling. This generous act of assistance was disapproved by the Court of Directors and the publication of this order in the Calcutta Gazette shook the confidence of the people in the credit of these Agency Houses.[16]

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(15) This Palmer & Co. itself was helped to a great extent by advances made by the Government but eventually they had no effect in restoring the credit of the Agency House. The Government was forced to do this as the guardian of public credit and was under the moral obligation in times of panic to do all it could to alleviate panic and to support monetary institutions. But as things turned out no good was done by this timely help.

(16) *See* Territorial Finance Department—Abstract of Letters from the Court to Bengal Vol. V—No. 9, dated 20th July, 1831. This letter descants upon the impolicy and evil of Government's interfering to relieve commercial embarassments. "We peremptorily prohibit the making of such loans in future. We desire that this be made known generally. We require a statement of the sums advanced, the securities lodged and the periods of repayment and dispute, the view of the Governor-General as regards the present state of the trade of Calcutta which has

There was no business paralysis or panic except in the times of the Indian Mutiny and that in the cities of the interior alone. The curtailment of the usual business activity, the acceleration of the hoarding tendency and the refusal to extend credit were the chief characteristics in the interior.

What then were the essential defects of the Banking System ?

The main defect was the rigidity of the banking system. Some of the Banks privileged to issue notes could make no headway for reasons already discussed elsewhere. The lack of uniformity in metallic currency was only legally and formally rectified so late as in 1835. But the power to aid commerce and trade on a large scale did not exist. As Mr. Allen says "the mofussil banks in the interior were not exercising any appreciable effect on the trade and agriculture of the country." We find Lord Hardinge, the Governor-General echoing the same opinion and it was on this plea that bank legislation was postponed by the Court of Directors.

Except in the last decade of our study when the superiority of the Presidency Banks was consciously

arisen from the restrictions upon the resort of Europeans to and upon their holding land in the interior of India." A perusal of the Financial General Letter from Court to Bengal written on 19th Aug., 1832 shows that the Government advanced to the relief of the mercantile community at Calcutta—Rs. 2,56,09,000 upon the security of Houses, Lands, Indigo Factories, Steam Vessels, and a Colliery. Although the loans were granted for a period of 9 months only about Rs. 8,82,421 were left uncollected by Sep., 1830.

admitted by the other metropolitan banks and were allowed to become the banker's banks there was utter lack of cohesiveness even in the metropolitan areas where banks conducted business so that when currency stringency or strained financial conditions were felt each bank had to fall back on its own resources. There was no common policy of action nor a systematic joint working for the common good of the people.

The Advantages of the System.

But the main advantage of the banking system of this period was the providing of the people with note-issue and as Symes Scutt graphically puts it "the apple was ripening in 1862 and the Government plucked it giving the Bank what were supposed by them to be compensating advantages which have steadily dwindled in value ever since."(17) The people were slowly realising the general utility of the banking institutions. Both the merchants and the Government realised much benefit by the bank's granting of loans and the supplying of specie at moderate rates of interest. The financial standing of the Government was greatly improved and this can be inferred from the steadily falling rate of interest they had to pay for loans floated in the market. There was indeed the so-called paradox of "increasing indebtedness of the Government at gradually falling rates of interest." But it is not difficult to

(17) *See* Introduction to his book "The History of the Bank of Bengal."

explain this paradox. The political stability of the East India Company's rule and the gradual acquisition of territory conquered by it inspired confidence in the minds of its creditors.

These were the chief services rendered by the banking system in spite of occasional disgraceful failures. Mr. Tucker's prognostications that "an artificial state of credit encouraging spurious trade hazardous to all parties and dangerous to the public would be created" [18] proved after all to be imaginary fears and even the speculative spirit that was so strongly condemned by him was engendered only by the Agency Houses. The spirit of commercial speculation is inherent in human nature. Banks can indeed aid or abet this dangerous tendency. Except during the crisis of 1864 to 1866 Indian Banking institutions can never be declared guilty under this charge.

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(18) It is on this score that he advised the Government not to start the Chartered Banks at Bombay and Madras. *See* Paper written in 1838.—Memorials of India Government, p. 441.

PART II

EARLY BANKING IN BOMBAY

CHAPTER I.

THE EARLIEST BANK OF BOMBAY.

Introductory.—Main reason for starting the Bank.—Period of its existence.—The nature of its Work.—Report of the First Committee.—Report of the Second Committee.—Report of the Third Committee.—Some details of its management and expenses.—Relations with the Treasury.—Bank Accounting.—Note-issue.—Form of the Note.—Why was not remittance work undertaken ?—How was it conducted till the starting of the Bank of Bombay ?—Services of the Bank.—Lessons from the Bank.

INTRODUCTORY.

Neither the existence of the Bombay Bank nor its capital nor any other details of the institution are available to the general public or the students of Indian Banking. In spite of the earlier attempts made by the Secretary of State for India in 1864, [1] nothing of any material importance was discovered by the

(1) *See* the Financial General Letter No. 12 of the Court of Directors (1844) asking the Bombay Government to make a search for the £ 7000 deposit made by L. L. G. Agamal in 1765. The Secretary of State for Foreign Affairs, Viscount Canning was approached by the Austrian Minister, Baron de Nieumann at the Court of St. James for information about the said deposit. The books of the Bombay Bank in London were searched but as no information could be gathered, the above request was made by the Court of Directors in 1844 to the Bombay Government. The Accountant General replied that the forthcoming books do not mention this fact. *See* the Letter to the Court of Directors—24th Feby., 1845.

Deputy Accountant or the General Record-Keeper of the Bombay Government.

The Secretary of State for India was forced to enquire into the details of the above institution as a result of the request on the part of the Consul-General of Russia stationed in London. This officer forwarded through the official channels, the letter of Mr. A. De Berg, dated 3rd. Sep., 1863, which referred to the Journal de St. Petersberg of 10th Nov. 1862, mentioning the deposit of Twenty lakhs of rupees by Mr. Lazar Agamal, a Persian Prince from Armenia who died in the year 1774 and that several people put in their claims for the capital and that the matter was renewed in 1857.(2) In that year, one Mr. Paul Agamaloff of St. Petersberg declared himself to be the heir of Prince Lazar Agamal and claimed the said deposit. Mr. A De Berg not only stated that his claim should be enquired into but requested the Secretary to appoint a special commission to examine the claims of the different parties to the succession, if such a line of action could be taken up by him.

As soon as the above letter (dated 8th Dec., 1863) of the Secretary of State was received by the Bombay Government, the Deputy Auditor and the Accountant General, Mr. S. D. Birch, who was then in charge of the Financial Department at that time,

(2) *See* Letter No. of 2 1846, addressed to the Secretary of State for India—General Department Diaries—Bombay Castle—12th Mar., 1864.

promptly initiated an enquiry and his reply [3] which was dated 25th Jany., 1864 was to the effect "that it was unknown that such a bank was in existence." He merely hazarded a guess that "it might be a private institution and the only entries being money borrowed from and interest paid into it by the Bombay Government." These were practically some of the very items mentioned in the Index of the Public Department Records and it is apparent that no further trouble was taken to examine or explore conscientiously the original manuscript records themselves.

Not satisfied with the incomplete statement that the Finance Department would be making, the then Governor of the Province, Sir Bartle Frere asked his Secretary, Mr. Richey[4] to appoint the General Record-Keeper for the special task of tracing the further details of the history of the "Bombay Bank." After about one month's systematic scurtinising of the Government Records, the Record-Keeper traced out a few details of the Bombay Bank which he recorded in his minute dated 29-2-64. Except giving out the date of the origin of the Bank, the amount of its capital and the exact date of its closing, nothing with reference to the nature of the work of the Bank is mentioned even in the Memo addressed to the Secretary of the State on 12th March, 1864.

With a view to secure more detailed information than the meagre details furnished in the above Memo

(3) *See* the General Department Consultations—Vol. 7, 1862-1864, page 141,

(4) Letter No. 64—14th Jany., 1864.

I initiated a diligent enqiury into the Public Department Records and fortunately some of the original Consultations are still preserved in the Bombay Record-Office. It is a pity that the records of the Revenue Department from 1777 to 1786 are not in existence in Bombay so that there is not even an incomplete mention of the Bank accounts which was the case during 1765 to 1767. An examination of the cash account of the General Treasury would often reveal the oft-mentioned entries of "money borrowed from and interest paid into the Bombay Bank by the Bombay Government."

It is indeed a pity why either the Deputy Accountant or the General Record-Keeper did not institute a thorough search into the Public Department Records. It is by a minute, careful and laborious study of the records that an accurate history of the Bank has been written. The most important task of mine was to discover the nature of the work of the Bank. All the earlier reports are indeed silent on this topic. Unless one makes an intelligent study of the Reports of the three Committees in 1740, 1744 and 1748 the nature of the Bank's work, the character of the securities of which loans were made, the possible effects of its operations and its general utility to the public cannot be properly ascertained. I believe that it is for the first time that such a detailed account of the first European Bank in Bombay, is written.

THE MAIN REASON FOR STARTING THE BANK.

With the object of increasing its revenue the Bombay Government approached the Hon'ble the Masters in England for the necessary permission to start a Bank.(5) On Monday 20th June, 1720 a consultation of the Bombay Council was made at Mahim at which the Hon'ble Charles Boone Esq. President and Governor—John Braddyll, Walter Brown, Blackett Midford, Owen Phillipps and Jno Courtney were present. As the Hon'ble the Court gave the necessary permission to start the Bank on the Island(6) Messrs. Brown and Phillipps, members of the Council were appointed to prepare a scheme and write out a detailed report on the method of regularly carrying on the business of the bank.

The scheme of Messrs. Brown and Phillipps was drafted and sent to the Council, which discussed it at its sittings on Monday 25th July, 1720. As the whole scheme was approved *in toto* the original letter containing the scheme is quoted in full.(7)

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(5) The Madras Government followed a similar procedure in 1683 so that Governor Gyfford was permitted to start a bank of deposit and secure revenue out of banking business.

(6) It is a pity that neither the Bombay Government's letter nor the reply of the Court permitting it to start a Bank are preserved in the Bombay Record-Office. The permission is supposed to have been mentioned in 73rd para. of Mr. Addison's Letter written in 1720.

(7) I have put in brackets the portions of the letter which are found torn. Over and above this I have written my own words filling up those gaps so as to enable the reader to understand the letter in spite of its serious omissions.

Hon'ble Charles Boone Esq.—President and
Sir and Sirs
Governor of Bombay, Hon'ble (torn).

of the order
By virtue (torn) of the Council to us the
20th ultimo you
(torn) to prepare and lay before (torn) for the
establishing
erecting and (torn) a Bank in Bombay for
money
supplying the Merchants with sums of (torn)
whereby they may better be enabled to extend
general
and carry on the (torn) trade of this Island
—according to the direction and indulgence of
Our Hon'ble
(torn) Masters, we humbly offer the following
proposals..............

1st.—That a sum not exceeding one hundred
issued out
thousand Rupees be (torn) of the President
Hon'ble Company's cash and be set apart and appro-
for this
priate (torn) purpose as the capital stock of the
Bank of Bombay.

2nd.—That the case of management of the said stock and all the Transactions of the Bank be under the immediate direction of the Governor and two
other
(torn) members of the Council, whom we shall
books to
appoint who shall keep (torn) enter therein all
trust
their proceedings in the discharge of this (torn) and
once a year (*viz.*) in the month of July deliver unto

of all the
Council an Account (torn) interest made and gained on the money lent and issued out by the
Bank
(torn) pay the same into the Treasury for the use of the Rt. Hon'ble Company.

3rd.—That any person or persons Inhabitant
natives
on Bombay whether (torn) or the Rt. Hon'ble Company's Covenanted or hired servants, may
borrow
(torn) or take up money of the Bank upon giving
satisfaction
security to the (torn) of the managers aforesaid
deposit of
which security shall be either by a (torn) goods to the full value of the money lent and in such
borrowers
case the (torn) may retain and keep the money
dispose
for one whole year or until he can (torn) of those goods and receive in the money for the same.........
sooner
which shall (torn) happen or otherwise the borrower
merchant
shall procure one substantial (torn) or other
in a
inhabitant of the place to be joynt Security (torn) Bond with him to repay the said money and interest
for
therein (torn) the term of six Callender months :—

4th.—That in consideration the Rt. Hon'ble
leave
Company have given us (torn) to issue out of their own cash the sums to be advanced from the said

Bank
(torn) that therefore they be allowed by the borrowers an Interest for the same after the rate of nine per cent. per annum until the Principal and Interest is paid.

5th.—In consideration of the trouble and charges
of
of the management (torn) affairs and transactions
shall
of the said bank. Every borrower (torn) upon his entering into bond for the money they lent him
pay back
(torn) to the managers one per cent. for the said trouble.

6th.—That as a further encouragement to the
Bank be
borrower the (torn) obliged to receive from him
thereof before
at any time upon tender (torn) the expira-
any even
tion of the times limited in the 3rd article (torn) sum or sums of money not less than one hundred
Rupees in part of
(torn) his debt and the Interest of such part
from henceforth
so paid, shall (torn) cease and determine,
the owners shall
and also for Goods deposited (torn) have free liberty at all times to shew and dispose
thereof in whole or
(torn) part and upon paying the produce
the same shall be
into the Bank (torn) accepted and received in
according to the amount
part or in full of the debt (torn) thereof.

7th.—That any person who borrows of the
Bank may have cash notes
(torn) if they choose the same rather
The said notes to be signed by the managers and
than money. (torn)
sealed with Rt. Hon'ble Company's seal and that no one
(torn) shall be
note in words
for less than fifty rupees and shall run (
after the following
torn) manner,

Bombay 14th July, 1720,

We promise to pay
(torn) or order at demand fifty silver rupees
current of Bombay and on account of the Bank.
(torn)

A
B
C

And if any person
8th.—(torn) shall lend to the Bank any
rupees
sum of money of one hundred (torn) upwards for the term of six months certain ; he shall have a note signed and sealed as aforesaid bearing interest at one Duccanee per diem for one Hundred Rupees and payable also at demand after the expiration of said months to him or order by endorsement—

Bombay, 14th July, 1720.

We promise to pay, or order one hundred rupees current of Bombay together with the Interest at one duccanee per diem from the date hereof for one hundred rupees on demand after the expiration of six

callender months for the account of the Bank of Bombay.(8)

We are,
Your most obedient Humble servants,
Walter Brown,
Owen Phillipps.

As a result of the approval of the scheme by the "black merchants" who were taken into confidence in the above matter it was determined to start the Bank as a Government-owned bank with one Lakh of Rupees as paid-up capital. A proclamation to that effect was issued on 22nd Dec., 1720. The conditions on which it was established were also mentioned.

The Period of its Existence.

A perusal of this important letter enables us to have a clear idea of the date of its origin, the amount of its capital, the ownership of the capital, the proposed nature of its work, the way of its management and the expected advantages which might flow out of its successful functioning for a period of years. These outlines can indeed be gathered from the Memo of the General Record-Keeper already referred to. Another useful fact mentioned by him was the date of its actual closing of banking business. It existed till 1783 when it was wound up as a result of the recommendations of the Court of Directors

(8) The Proclamation itself is missing from the Bombay Government Records.

communicated to the Bombay Government in January, 1783.(9) This letter was written in reply to the Bombay Government's letter dated 30th April, 1779.(10) Owing to the desperate financial condition of the Bombay Government, the Hon'ble the Court of Directors thought it worth while to discontinue the Bank. As they deemed it unnecessary to continue the Bombay Bank Stock, the debts to the bank were vigorously collected and further lending of money was stopped altogether. This must be the reason for the closing of the Bank in 1783.

The Nature of its Work.

Commencing its actual work in 1720, it must very soon have developed into a deposit bank. It must indeed have become the recognised keeper of the deposits of the people by virtue of its being the Government-owned and Government-managed Bank. As interest was paid on deposits at the rate of one duccanee per diem for rupees one hundred, it must have rapidly developed into a deposit bank, pure and simple. As its transactions were being conducted through the Council, as the depositors were receiving a note covenanting to repay the deposit sum with interest and as the said note was being signed by the Governor on behalf of the Company almost all the essentials needed to make the

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(9) *See* paras. 34 to 36 of the General Letter of the Court of Directors—Jany., 1783.

(10) *See* para. 172 of the General Letter of the Bombay Government addressed to the Hon'ble the Court of Directors—1779.

depositors part with their sums and place confidence in the Bank were forthcoming in the above instance. Even the Mayor's Court suggested in 1727 "the transfer of about two thousand rupees—the amount of fine standing upon the books from the Treasury to the Bank and be employed at interest."[11]

The granting of loans for the improvement of trade was another distinct object for which the Bank was established. The whole of its working capital was usually lent to the "Inferior Landlords" of the City on the mortgage chiefly of Oarts, or Batty grounds, houses and personal security.

The Report of the First Committee.

It has been stated already that a minute study of the reports of the three Committees of 1740, 1744 and 1748 alone that can reveal to us the nature of the securities and the character of the loans made by the Bombay Bank. The first Committee[12] which was signed by John Geikie and Thomas Stonestreet on 11th January, 1740 was indeed the first examination of the loaning business of the Bank. The following list of the borrowers on May, 1739, *which is not however exhaustive*, is quoted mainly with the view of disclosing the character and kind of securities accepted by the Bombay Bank.

(11) *See* the Consultations dated 1st March, 1727.

(12) This must evidently be considered as the earliest Banking Committee in India.

Loaning business, May, 1739.

Name of persons (Borrowers).	Principal. Rs. qrs. raes			When lent.	Security.	Outstanding sum. Rs. qrs. raes.		
Luckmidass and Joan De'Almeida.	2,000	0	0	Feby. 14, 1721 ..	Personal security.	705	3	84 (13)
Rupjee Dunjee ..	1,000	0	0	Aug. 17, 1728 ..	Do.	1,000	0	0
„ „ ..	1,200	0	0	„ 31, 1732 ..	House	1,200	0	0
Dindass and Muckendass.	400	0	0	July 4, 1722 ..	Personal security.	400	0	0
John Morley ..	2,000	0	0	Sep. 1, 1729 ..	No security.	2,000	0	0
Sancra Sinay Sacataeur.	5,500	0	0	June 2, 1783 ..	Oarts as security.	5,500	0	0
Jee Jamesct ..	6,000	0	0	Mar. 23, 1733 ..	Do.	4,775	0	0
Rada Permanand and Bora Permanand.	50	0	0	Feby. 14, 1732 ..	Do.	50	0	0

(13) As the then token money was quite different, a word of explanation is needed to enable the reader to understand the above table. Rupees were divided into four quarters and each quarter into 100 raes. Even ½ or ¾ raes were often used in the accounts of this period. The present-day copper currency was introduced only in 1830 but it was not until 1852 that the Company's copper currency was popular in the several districts of the Bombay Presidency. The Native Mints issued copper currency which circulated in the districts. It was only after very great difficulty that the copper currency became the accepted medium of exchange. *See* the Financial Consultation, No. 16—1834, "about 238 native bankers protested against the closing of the Native mints for that was the only occupation left to them after the Peshwa's Government was reinstated by the British Government in 1818. Halle Siccas, Chandwad and other coins were minted by them. If the Surat Rupee were to be the sole currency we lose our livelihood," 31st May, 1834. In the wider interests of the community the Government refused to listen to this and the Chandare, Nasick, Poona and Ahmadnagar Mints were closed. Neither copper nor silver coins were allowed to be issued.

See also the Letter of C. Allen, Secy. to the Government of India to the Bombay Government, 18th July, 1853.

The greater part of the Bank money was lent on mortgage of Oarts or Batty grounds and the Valuation was according to the Veradore's [14] calculations and as their valuations were always well below the actual value of the Estate the Bank had some margin in its favour. Hence there was some safety attached to these loans. While this used to be the feature in the beginning, the value of houses as well as Oarts began to decline as a result of the "Notification forbidding any house to be rebuilt or free planted within four hundred yards of the Walls of the Castle." With the growing popularity of cocoanut cultivation the value of the Batty grounds similarly began to depreciate. Thus the loans on mortgage of real estate began to cause infinite trouble and grave anxiety from the early beginning of the history of the Bank. On the other hand the loans made on personal security never occasioned any loss to the Bank. Two or more persons were jointly and severally bound for the repayment of the loan. Another curious feature was the very low figure for which the bank loan could be made at that time. The minimum limit was Fifty Rupees and needy borrowers were accommodated even for this low figure on deposit of security. The system of registering mortgages was insisted upon in 1731 in order to protect the Bank from any defective title to the mortgaged property. Though on the whole the loaning business was being

(14) For the functions of the Veradores *See* Pherozesha B. M. Malabari —"Bombay in the Making"—(1660 to 1721), pp. 465 to 467.

conducted on fairly sound lines, the most important part that a bank should play in the matter of loaning business was neglected. There was no rapid turnover of capital. The loans were never promptly repaid at the end of an year even. Thus the locking up of the Bank's capital in the hands of few borrowers ensued.

THE REPORT OF THE SECOND COMMITTEE OF 1744.

As the main mistake of renewing the loans was committed and as most of the loans were allowed to remain uncollected even at the end of a very long period much dissatisfaction was felt and a second committee was appointed to examine the loaning business. This committee consisted of two members John Morley and George Dudley. A more painstaking scrutiny of the bank securities ensued as a result of its labours. The preliminary investigation was confined to the different securities. An examination of the records of the Mayor's Court was undertaken to ascertain if any securities were previously mortgaged to others before loans were secured on the same property from the bank. A second mortgage could be traced only in one single case. It became apparent that the Bank was not a victim to dishonest proceedings on the part of the borrowers. Secondly, the long standing debts were examined with the view of discovering any depreciation of the property of the securities on which the

original loans were made long ago. A vigorous scrutiny of the valuation of the property was made with the help of the veradores and engineers of Bombay and Mahim. The Oarts, houses and the Batty grounds which were mortgaged to the bank were revalued by these land experts. The Committee was shrewd enough to realise that a possible danger lay in the depreciation of the securities. In only one instance was a loan made on personal security. One Rupjee Dunjee borrowed one thousand Rupees on Aug. 7th, 1721 and as no part of the debt was repaid even in 1744 it was considered that such a procedure was against common prudence and the Bank was advised to secure the above loan by a Bond wherein another person would be jointly liable to the Bank for the above loan to Rupjee Dunjee.

Since most of its original recommendations were promptly carried out as bye-laws of the Bank a reference to them is essential to understand the improvements suggested by it. Firstly, it was pointed out that every loan even though it was to be secured by a mortgage of property should be cancelled at the end of every five years. This insistence of prompt payment and cancellation of the loans at the end of every five years was its first recommendation. Secondly, loans on the mortgage of Oarts, houses and Batty grounds were to be granted up to half or two-thirds of the value alone. The practice of loaning sums to the full value of the property was rightly condemned as a disastrous one. Thirdly, the practice

of allowing the loans to remain uncollected gave scope to evasion on the part of the heirs of the deceased borrowers. So it was recommended that the heirs to the property should contract fresh bonds in their own name for the debts of the deceased customer. Fourthly, small sums below Rupees two hundred to needy borrowers were very often granted even though these proceedings involved the bank in needless worry, trouble, the valuation of the property and constant anxiety as regards the safety of the loan. Hence a minimum limit of fifty Rupees was considered unsuited to the interests of the bank. It was raised to two hundred rupees. Fifthly, the Committee recommended the continuation of the salutary practice of lending on the personal security of borrowers of unimpeachable standing and as these were to be jointly and severally held liable for the loan there would be no loss arising out of these transactions. Although out of the total loanable sum of Rs.1,00,313 about Rs. 42,900 were secured on mere personal security there was no real danger to the Bank as these borrowers were men of unimpeachable integrity.

Almost all the above recommendations were immediately translated into action as the Bombay Council approved them at its sittings held in December, 1744.[15]

(15) *See the original Proceedings of the Bombay Council*, Dec. 14,1744.

Report of the Third Committee.

Although these new regulations were enforced and insisted upon in all its loaning transactions after 1744, still another Committee had to be appointed in 1748 as the mortgage business of the bank caused it a lot of trouble and anxiety. On 24th May, 1748, the Committee submitted its report. The Bank securities were once more examined and a fresh valuation of the several mortgages took place once again to see if the Hon'ble Company were in general sufficiently secured. Once again it was found out that loans were renewed for very long periods on mortgage of property and the practice of registering the deeds in the Secretary's office was often neglected by the Inhabitants. Interest on the bank loans was not regularly paid and the habit of making long term loans still existed. The Committee promptly referred to these lapses of policy on the part of the Bank. As a result of its recommendations it was ordered that "a proper mortgage be taken for the sum of eight hundred rupees which Essenjee Naique and Babajee Naique are indebted upon personal security as being contrary to the rules of the Bank. Likewise that agreeable to the Committee's recommendations it be an established rule in the Bank not to lend any money on mortgage unless the Title deeds are duly registered in the Secretary's office and deposited in the Bank by which the free valuation of securities will not only be more amply ascertained than by partial valuation made by the veradores

and Matras—the method heretofore also practised but the Hon'ble Company will likewise be better secured against fraudulent deeds and it being observed on this occasion that the inhabitants neglecting to register in the Secretary's office—their Deeds notwithstanding all permissions for the sale of estate signed by the Governor conformable to an ancient custom hitherto observed expressly required it, as noticed by the Committee, most probably proceeded from such fraudulent motives, it is agreed that a Publication be prepared requiring all persons to register their deeds of sale in the Secretary's office within the space of 10 days from the date of the said publication otherwise that the Law with regard to fraudulent conveyances will be put in execution with the utmost rigour and severity."

"As the Bank money by the present practice of letting it out on bonds continuously renewable though the securities be good may get into particular hands and thereby not answer the circulation of it in trade for which it was intended, it is therefore resolved that all bonds of five years standing be instantly paid off and that the like method be observed in the future."

Thus until the bank conducted its business for a period of roughly thirty years the dangers attendant on mortgage business were never fully realised. It was by a process of trial and error that it slowly discovered the right and safe method of handling loaning business on the mortgage of title deeds,

Almost all imaginable defects that could attend the loaning business were actually experienced by the Bank, and until the following regulations were framed the loaning business of the Bank was never conducted on sound lines and the main object of the Bank namely, the financing of trade was defeated by these "locked-up loans". Firstly, every loan was to be repaid at the end of five years or the loan renewed only after proper revaluation of the mortgaged property. Secondly, no loan was to be granted without a proper registration of the title deeds of property. This was practically intended to protect the Bank from the fraudulent intentions of dishonest persons. Nextly, there should be the actual retention of the title deeds in custody of the Bank so as to prevent remortgaging to other parties. Fourthly, there should always be a prompt foreclosure of loans in case the mortgaged property were to depreciate in value due to unforeseen causes. Finally, every instrument of mortgage should be duly registered with the Registrar. A glance at the above precautions makes it clear that loaning on mortgage of property has to be done by any bank on scrupulously neat lines. The Bank manager has to be all-active and never relax his vigilance in watching over the value of the mortgaged property.

Some details of its Management and its Expenses.

It is a matter of surprise that the General Record Keeper's Memo does not even mention the details

of its management. Except the broad generalisation that "its transactions were conducted by the Government through members of the Council" even a rough idea of its expenses is not given. But something can be gleaned out of the manuscript Records. For quite a number of years there was no allowance to the Assistant of the Bombay Bank who had to perform his duties without any remuneration. On 26th June, 1724, "the Council voted £50 per annum as gratuity to be given to the Assistant of the Bank, Mr. Arnold Paaww."(16) The management of the bank was usually entrusted to the Members of the Council. One of them was in charge of the bank. He was generally promoted to the post of "Collector of the Rents and Revenues."(17) The Deputy Accountant was generally raised to the position of the Bank Manager. A glance at the original proceedings of the Council would bring to light the usual way of promotion of the officers to the different posts. In 1745 we come across the entry of the Bank as Richard Sanders of the Bank was appointed as the Collector of the Rents and Revenues. The salary of the Manager was at about this time 320 rupees per annum.(18) One Charles Whitehall, a member of the Council who held the office of Chief Accountant

(16) *See* the Public Department Diaries—1724. This is also quoted by G. W. Forrest in his printed volumes referring to the Diaries of the Bombay Castle.

(17) *See* the Original Public Proceedings of the Bombay Council—9th April, 1745.

(18) Originally it was determined to pay him only a commission of 10% of the profit for the management.

wanted to occupy one of the posts, Land-pay-master or Collector of Rents and Revenues or Manager of the said Bank in addition to his own post. It was rightly held by the Council "that the holding of two posts was inconsistent with the orders of the Hon'ble Company's Established Orders." The Governor and President of the Council was the constitutional head of the Bank who was in charge of the Bank balance.

While the manager was the highest administrative officer of the Bank he was assisted only by an Assistant clerk and a Sepoy was employed to guard the cash reserve of the Bank. A reference to the Bank Accounts of the Bombay Bank for January, 1752 reveals the amount of its expenses—

	Rs.	qrs.	raes.
Paid Assistant's salary for six months ..	200	0	0
Sepoy's wages at four Rupees per mensem ..	24	0	0
Total Expenses ..	224	0	0

Occasional changes in its staff are also faithfully recorded. It was usual for the Council to secure the Hon'ble the Court of Directors' pleasure whenever any such changes in the staff were made by the Council. In 1764 it was resolved by the Board "to allow George Dick to continue as Deputy with the same emoluments as he would have as Accountant and the First Assistant was asked to take charge of the Bank and have the same allowance which the Deputy had formerly."[19]

(19) *See* the Original Public Proceedings—14th Sep., 1764.

The monthly statements of receipts and disbursements were laid before the Governor-in-Council.

RELATIONS WITH THE TREASURY.

In its transactions with the Public Treasury, it was conducted upon principles of a clear and distinct interest. But whenever the Treasury was short of money, it borrowed the same from the bank. It was usually repaid as soon as the cash balance was replenished. For instance, the Treasury borrowed on the 13th and 16th January sums of Rs. 4,000 and Rs. 2,000 respectively and the same were repaid on 18th January, 1768.(20) Another typical instance of the way in which the funds of the Bank were usually borrowed by the Treasury occurred in April, 1768. The Treasury balance fell as low as Rs. 3,009-0-4, notwithstanding a loan of Rs. 172,000 from the Bank. Money was urgently needed for the China Ship. So the Bombay Council which could not replenish its resources in any other manner promptly determined to collect the debts of the Bank to the extent of Two hundred thousand rupees from the longest-outstanding borrowers and from those whose securities were considered in any way doubtful.(21)

Still another instance of Bank's help can be quoted. When the Treasury balance reached the

(20) *See* the Original Public Proceedings—11th Feby., 1768.
(21) „ „ „ „ *25th April, 1768.*

low figure of Rs. 18,000 about Rs. 250,000 were transferred from the Bank to the Treasury so that it might be transferred to Surat by bills of exchange, if they were to be procured at par or if not in new or unchopt Rupees to be laden in the "Success Ketch."[22]

Such sorts of advances are usually always made by the present-day Central Banks to the Government Treasury and these are known as the Ways and Means advances. It is a strange coincidence that we could trace this system of financial help going on as regards Treasury matters even roughly two centuries ago.

The Government Bank was considered in its details as a distinct entity separate in all its affairs from the Government. The Bank accounts were duly examined for each and every month and the balance was promptly reported to the Council. The interest to the Bank was similarly arrived at. Such reports of the Treasury Account, the President's Account of Running Cash, Warehouse Accounts, the Marine Paymaster's Accounts and the Land-pay-master's Accounts were often made to the Council after a proper examination of the same. The following extract for the month of December, 1751 can be taken as a specimen instance of the Bank Accounting that was in vogue in those days.[23]

(22) *See* the Original Public Proceedings—25th Oct., 1768.

(23) *See* the Original Proceedings of the Bombay Council (Public Department), 7th January, 1752.

ACCOUNTS OF THE BANK FOR DECEMBER, 1751

Bombay Bank				Dr.
Dec. 1st	To balance of last month			Rs. 655 3 29
„ 2nd	To W. Rupjee Interest to the 31st July, 1751 ..			„ 99 0 0
„ 3rd	To Byramjee Homjee			„ 18 0 0
„ 10th	James Stuart and Canoba Wittojee interest on Rs. 1,500 from 31st May to 31st July—— two months one day			„ 22 3 50
„ 19th	Jevon Naique Vizt in full principal ..	Rs.	100 0 0	
	Interest on Rs. 200 from 1st Feby. to 24th July—a period of 5 ms. 23 days ..		8 2 60	
24th July to 31st			0 0 70	
Interest on Rs. 100 from 19th 1st August to Dec.—4 ms. 19 days			3 1 90	
	Total			112 1 20
December 30th Santy Goverdan Principal				1250 0 0
	Total			2157 3 99

Bombay Bank		Cr.
1st by Balance	Rs.	2157 3 99

1st Dec. Bombay Castle.

Richard Bourchier, G. Scott, J. Sewell.

The Bank Books ending 31st July were annually audited, examined and passed.

NOTE-ISSUE.

The very great scarcity of specie in 1770 in the Island of Bombay prompted the Government to discover some means by which the currency situation would be eased to any appreciable extent. One

Mr. Taylor, a member of the Council proposed the issuing of bills from the Bank on loans upon the present security. It was resolved that this plea should be put into execution and that notes be immediately prepared to the amount of debt due from the Treasury to the Bank being with interest about Rs. 800,000. The notes to be from forty to one thousand rupees, each signed by the manager of the Bank and sealed with the Hon'ble Company's seal.

This original plan was greatly improved by an officer of the Bank of England—Mr. Robert Blatchford and his final draft of the proposal was to make the Bank, a Bank of deposit and issue. The Bank was to be privileged to issue notes up to eight lakhs of rupees only. The Treasury should in the beginning assist the Bank with one third of eight lakhs of Rupees in specie and notes up to this amount should be retained by the Treasury to be returned when the specie is repaid. Persons, who borrow money from the Bank should undertake to encourage the circulation of the notes which were to carry interest payable only after the expiry of ten days at six per cent. per annum. The form of note was to be exactly similar to the early promissory notes of the Bank of England. So as to protect the Gentlemen of the Council who were to manage the Bank the form of the note was to be signed in the following manner.

"For the Court of Directors of the United East India Company" thus making[24] the East India Company alone liable for the notes, the first notes of the Bank were to be of the following denominations for each lakh of rupees.

Rs.					Rs.
10 of 1,000 each	..	..		..	10,000
24 ,, 500 ,,	..	..		..	12,000
24 ,, 300 ,,	..	..		..	7,200
100 ,, 200 ,,	..	..		..	20,000
200 ,, 100 ,,	..	..		..	20,000
400 ,, 50 ,,	..	..		..	20,000
540 ,, 20 ,,	..	..		..	10,800
			Total	..	1,00,000

(24) This plan should be compared with the scheme of Warren Hastings to issue notes in Bengal in 1780 against the deposit of sicca Rs. 30 lakhs lying in the Treasury in the New Fort William. He adopts the same form as this so as to exonerate the officials from all liabilities with reference to notes issued under their signature. This plan was not, however, carried out as the notes issued by an impecunious Government could hardly have any circulation. The similarity between the two plans is striking and the plan of Warren Hastings must have been borrowed from a perusal of the plans of the Bombay Government.

It has already been related that an officer of the Bank of England was requisitioned for improving the original plan of the Bank determined by the Bombay Council. The first promissory notes of the Bank of England were issued exactly in a similar manner. A specimen of the 1699 promissory note of the Bank of England is appended to enable the reader to note the points of similarity as well as difference.

Form of the Note.

(Brittannia) 27th April,

Medallion. No. 104. J. V.

I promise to pay to Mr. Daniel Denny or Bearer on demand the Summe of One Hundred and Fifty pounds eight shillings and eight pennies..................
London 24th day of Jany. 1699..........

For the Governor and Company of the Bank of England.

John Wase.

See R. D. Richard's—Quarterly Journal of Economics—Vol. XLI, p. 399.

It was understood that time and experience alone would enable it to find out the denomination of notes which would be in demand. Hence it was resolved to destroy that portion of notes for which there were to be no demand and replace the amount by those which appear to be most in demand. Thus it clearly proved that no bank-notes circulated prior to this date in Bombay or else previous experience would have been drawn upon in the determination of the different denominations of the notes. Another significant fact that has to be noted is the round figure for which the bank-notes were to be issued. When compared with the first specimen promissory note of the Bank of England it would be noticed that they were for broken denominations including shillings and pence even. At any rate the note of the Bombay Bank was to be an improvement on this old form of the promissory note of the Bank of England.

As only eight lakhs worth of notes were to be issued it was wisely resolved that no person was to be lent more than Rs. 8,000 at any one time and the notes were to be lent at nine per cent. The Bank was to consider any second application for notes on its own merits. This shows clearly that the Bombay Council seems to have dimly perceived some of the principles of sound banking, *viz.*, that all eggs should not be placed in the same basket, that the Bank should distribute its resources in the hands of all deserving applicants and that credit should be

created without any bias—be it communal, religious or political. The notes were to be lent by the Bank or issued against money paid into the Bank.

Whether this well-meant plan of issuing notes has not been executed or whether the people refused to circulate the note which must have been a novelty or new innovation at that time there is unfortunately no reliable documentary evidence. The Bank might not have issued large amount of notes, for latter day writers have often mentioned that previous to the foundation of the Presidency Bank of Bombay in 1840 paper money was almost unknown in mercantile transactions of Bombay "as at Calcutta and Madras."[25] But unfortunately much reliance cannot be placed on their statements for most of them were undoubtedly repeating from the same source of information.

It is indeed a grave misfortune that there is not a single trace of the work or transactions of the Bank in the records of the Revenue Department or the Public Department or any other department of the Bombay Government during the years 1770-1778. There are, however, occasional references to its transactions in the year 1778. In that year the Bank

(25) *See* J. Macgregor's "Commercial Tariff," Part XXIII, p. 661. *See* also the pamphlet—the late Government Bank of Bombay, 1868. This does not however, mention any details as regards the note issue of the Bank of Bombay (1840-1868). It is in reality a history of the Bank of Bombay from 1863 to 1869. Something more can be actually written from a thorough study of the evidence of the witnesses before the Sir C. Jackson Committee. *See* also C. N. Cooke—Banking in India, p. 175. *See* also Symes Scutt—History of the Bank of Bengal.

asked the Governor-in-Council "permission to put certain bonds to suit as cannot be recovered by fair means except that the debts due from the estate of Harry Huet and Richard Bate which have been referred to the Hon'ble Company." (26) In July of the same year, the debt of the Government to the Bank amounted to such a large extent that the Council began to feel great anxiety on this score. It wrote to the Hon'ble the Court of Directors to give it specific instructions "whether to fix it at a certain sum or to write it off altogether and establish a new bank whenever the state of our finances will permit." It is apparent then, that the Bank must have been conducting its business during these years.

Why was not Remittance Work undertaken ?

That the Bank was not utilised for remittance purposes becomes clear by a perusal of the manuscript records. Some merchants who had considerable sums of money amounting to Rs. 80,000 for coining in the mint put in a request for the remission of the amount as they had to make urgent remittance to Surat and other places. (27)

Remittances from Surat to Bengal were made by the shroffs by means of bills negotiated with them at the rate of exchange. The shroff's promise to pay was the only security behind the remittance and even the Company had oftentimes to employ these

(26) *See* the Original Proceedings of the Bombay Council—23rd Sept., 1778.

(27) *See* the Original Proceedings—Sep. 12, 1746.

shroffs for making these remittances.[28] After 1796 it was more generally the practice of the Bombay Government to sell Bills on the Governor-General-in-Council.[29] The following advertisement issued by the Financial Department in the Bombay Castle Gazette of 31st August, 1821 explains the situation clearly.[30]

Notice is hereby given

That Bills on His Excellency the Most Noble the Governor-General-in-Council to the amount of Sicca Rs. Eight Lacs (8,00,000) drawn payable sixty days after sight will be disposed of by public auction to the highest bidder or bidders at the General Treasury at noon on Saturday the 8th Proximo and for the accommodation of purchasers will be drawn in sets as follows, *viz.*,

			Rs.					Rs.
10	sets	of	25,000	each	...	...	...	250,000
10	„	„	20,000	„	...	...	...	200,000
15	„	„	10,000	„	...	...	...	150,000
20	„	„	5,000	„	...	...	...	100,000
25	„	„	2,000	„	...	...	...	50,000
50	„	„	1,000	„	...	...	...	50,000
					Total Sa.		Rs.	800,000

By order and Company
Sd. J. FARISH,
Secretary to the Government.

(28) *See* the Original Proceedings—Sep. 19 to 22, 1746.

(29) This practice was initiated in 1796 at the request of Mr. T. Myer, the Accountant-General. Since that year the practice of openly selling such bills in order to secure resources was adopted. *See* the Public Consultations—Fort William—7th January—1800 (No. 47).

(30) This was published in the "Courier" and hand bills were also circulated in the bazar on 3rd Sep., 1821.

That this practice existed even in 1840 becomes clear by a perusal of the Financial Notification published by the Accountant General, J. H. Crawford.[31]

How was internal reimttance work usually performed?

While the above notification explains the nature of the exchange dealings between Bombay and the Bengal Presidency, the following was the usual method by which the requirements of the Residents at the Mahartta Court (*viz.*) Indore were secured without remitting coin or specie. The resident usually drew a bill on the Bombay Treasury for his expenses and sold it to firms in need of remittance.

The following letter explains lucidly the method adopted.

Indore, June 17th, 1821.

To

The Hon'ble M. S. Elphinstone,
Governor-in-Council,
Bombay.

Hon'ble Sir,

I have the honour to inform you that I have this day drawn on the General Treasury a bill in Duplicate No. 413 of 1821-22 payable at thirty days after sight in favour of Messrs. S. Malcolm and Co., for Bombay

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(31) Bills payable at 30 days' sight were sold by public auction at the General Treasury. *See* Notification, No. 1362 issued by the Territorial Department, dated 15th Dec., 1840, quoted from the Bombay Castle Gazette,

Rupees One Thousand being on account of the expense of this Residency.

Passed 6th July
Read 11th July.

I have the honour to be,
Sir,
Your most obedient humble servant,
Sd. WELLESLEY,
Resident.

Whenever increased resources for carrying on military operations were required in the interior and when the district resources were found insufficient to cover the total expenditure, the practice of remittance from surplus treasuries was adopted. When the Sholapore Treasury had to be augmented for meeting the additional requirements of the army, surplus funds from Ahmadnagar, Poona and Darwar were remitted instead of funds being sent to Bombay in the first instance and remitted from Bombay to Sholapore.[32]

It was not until the Bank of Bombay opened an account with the Agra Bank that the remittance of funds through Bank channels is noticeable. It was in October, 1842, that the Bank of Bombay opened the Agra Bank Account to facilitate the payment of interest on bank stock and the payment of interest on public debt, and afford facilities for remittance to the N. W. Provinces. Similarly, there were the

(32) *See* the Financial Letter addressed by I. Thackeray to the Accountant General, Bombay on 2nd Jany., 1821.

Bank of Bengal and the Bank of Madras and the Bank of Ceylon Accounts kept by the Bank of Bombay.

With the advent of the Bank Post-Bill of the Bank of Bombay things must have taken a different turn. The Bank post-bills were issued payable to order. There were two kinds, those payable three days after sight and those payable on demand. They were received in Treasuries on similar terms that governed the receipt of bank-notes.(33) As in Bengal, the principle governing the acceptance of the post-bills of the Presidency Bank, was to be the same. "The Provincial Treasuries were to receive them in payment of dues to the Government so long as it could be done without financial inconvenience or loss of profit obtainable by the sale of bills drawn by the Public Officers on such Treasuries." The main object of affording accommodation to the public and the Bank was not forgotten but it was to be regulated by the surplus of cash available for supply to the General Treasury and which cannot be brought to the Presidency by an advantageous negotiation.

The opening of other Banks like the Bank of Western India mainly to facilitate exchange must have improved matters to a great extent as soon as it extended branches, issued notes and specialised in exchange operations. In 1845 the starting of the

(33) *See* the Notification of the Financial Department issued in Sept., 1840 quoted in the Financial Consultation No. 38, 1840.

Commercial Bank of India[34] improved the situation further and the remittance facilities must have been satisfactorily performed by that time as there were roughly four Banks in Bombay, including the branch of the Agra Bank.

SERVICES OF THE BANK.

Leaving aside the occasional help rendered to the General Treasury which must have been indeed of a very useful character for bereft of all other resources of financial aid, the predicament of the Government Treasury would have been indeed very ludicrous but for the Bank's timely help, the service to the public must now be reckoned. Though occasional loans were a source of advantage to the Government still "its help in this direction must have curtailed its ability to accommodate the businessmen and the inferior landlords." Sometimes it resulted in doing positive harm to the private borrowers who were asked to repay the loans whenever extraordinary aid for a large amount had to be rendered to the Treasury. Pressure was exerted on the private borrowers to repay the standing loans. Dependence on the Government Bank was and could be safe only during normal times when the ship of state was sailing in smooth waters. But it proved to be indeed a frail reed whenever financial exigencies of the Treasury forced it to employ the funds of the Bank for its own purposes.

(34) *See* the Deed of Settlement of the Commercial Bank of India dated 1st Oct., 1845 published by the American Mission Press of Bombay, pp. 102.

Here is a moral for those willing to learn. A State-owned and State-managed bank might indeed curtail its accommodation to trade, industry and commerce if it finds itself forced to discount a large volume of Treasury bills. It is indeed true that even a shareholder's Bank might be placed in the same predicament if abnormal circumstances force the Treasury to depend on the Bank's help but in normal times there is a limit to the total advances of whatever character they might be, which can be granted to the State. Herein lies the superiority of the shareholder's type of Central Bank over the State-owned Central Bank.

It has already been pointed out that the remittance function was not performed by the Bank. It could not have been done without any explicit arrangements for the honouring of the drafts drawn upon the correspondents stationed elsewhere. There was indeed no other contemporary Bank at any other place or factory of the Hon'ble the East India Company in India. Except the selling of bills on the Treasuries which had surplus to those who were in need of remittance to the particular place no instrument of the nature of a bank draft could be devised.

As the Court of Directors emphasise, the Bank was of great help to the "Inferior Landlords." It confined its attention mainly towards granting loans to these people. Para 36 of the above letter[35]

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(35) *See* paras. 34, 35 and 36 of the Letter of the Hon'ble the Court of Directors to the Bombay Government, January, 15, 1783.

urges on the "importance of the starting of the Bank again as soon as an opportunity were to afford itself." This would not have been the case but for the recognition of the utility it conferred on the people by its services. Such an opportunity arose in 1822 as well as in 1827 when the people in the first instance and the officials of the Bombay Government in the second instance suggested the formation of a Bank. Both attempts failed. The first was disapproved by the Hon'ble the Court of Directors. The second was disallowed by the Accountant General. The Right Hon'ble Mr. H. T. Prinsep recommended the starting and issuing of the Treasury bills by the Bombay Government instead of attempting to run a full-fledged bank which can find no useful outlet for its capital.

What can we learn out of this Bank's Experience?

Some of the main lessons which the valuable experience of this pioneer of banking technique teaches us, have been indicated already. The cautious way in which the mortgage of title deeds of houses, land or real estate has to be conducted by modern commercial banks or the land mortgage banks can be clearly grasped by noticing the difficulties it experienced. Finding no other acceptable security the Bank had to lend against agricultural land. Several committees had to be appointed to examine the securities and pass useful regulations which would protect the Bank from any loss arising out of the "frozen advances" against the mortgage of real

estate. The difficulties attendant on mortgage of land or real estate are so great and the procedure involved in the making of loans so cumbersome that it is an accepted feature to take title deeds of houses and real property only as additional collateral to secure the existing loans whose original security might have depreciated in value in course of time and when the borrower has no other liquid and tangible security to offer. [36]

Secondly, a Bank is intended to circulate capital and not lock it up in assets however safe and easily reliable the securities might be, on which the loan is based. The one fact which distinguishes the modern bank from the mere money-lender is the clear recognition of this principle. Rapidity of turnover of capital not only conduces towards the enhancement of its profits but gives scope to the multiplication of its opportunities to help the needy borrowers with their required resources.

Thirdly, it is a Government Bank which would be of some use to the general public specially in the days when nobody is willing to trust private institutions. That the Bank attracted deposits is

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(36) But the modern Indian Banks are very reluctant to advance on the mortgage of real estate for the law of the Hindu Joint family system provides many loopholes. Unless this is tightened up banks would continue to fight shy of mortgage business. It is not only essential that all mortgages should be registered but the Bank has to see that Secs. 109 and 110 and 111 of the Indian Companies Act, 1913 are complied with when title deeds are deposited by way of equitable mortgage and registration by the Registrar is essential under section 9 of the Indian Companies Act, 1913.

clear, for the General Record Keeper's Memo plainly suggests that the Prince Agamal might have had deposited the amount of the said 20 lakhs before 1774 the year in which he died. Though occasional inventories of Bank's books were often made still not a single book belonging to the Bank is retained by the Government with the result that nothing definite can be warranted, as regards the volume of the annual deposits. The existence of the deposit habit on the part of the community cannot, of course, be doubted. Considering however the economic condition of the environment the deposits might have been meagre and hard to get.

Fourthly, it should not always be supposed that a Government Bank would immediately be made a tool to further the socialist aims and aspirations of the political party in power. There were indeed frequent borrowings from the Bank according to the exigencies of the Government but so long as the Government was able to make both ends meet there was prompt repayment of the loans to the Bank. But by the year 1779 the debt to the Bank became so heavy that the Government was alarmed at the situation and asked the Hon'ble the Masters for the right line of action which they should pursue in the future. The Bank, being a Government Bank, pure and simple, the assets were immediately collected and annexed to the general coffers of the State. The loaning business itself was wound up apparently for the lack of loanable resources. It is indeed peculiar that

there is not a single occasion on which the Bank has been helped by the Government, as it used to be the case in the matter of the Presidency Bank of Bombay. It is indeed true that "occasional Government help generally tends to perpetuate bad management on the part of the Bank Executive." But nothing can be deduced from the history of this Bank which can either substantiate or repudiate the above remark.

Fifthly, the possible danger of withdrawal of loans to satisfy the requirements of the Government always exists in the case of a Government-owned Bank. It has already been pointed out how this happened in 1768. But there is no guarantee that a shareholder's Central Bank would always satisfy the legitimate needs of trade, industry and commerce. Sometimes under abnormal circumstances prevailing on the Stock Exchange as is the case at present in America (Feb., 1929) broker's loans or loans on Stock Exchange collateral might encroach on the loanable resources that ought legitimately to be placed in the hands of commerce or industry. This is what the Federal Reserve Board (January, 1929) plainly admits to be the case. Since February of this year heroic efforts are being made to curb the speculative efforts of the people. The policy of "dear money" is being adopted in spite of its harmful repurcussion on money rates abroad. This episode clearly points out that relative stability of money rates should be no less important an objective of

the Central Bank's policy than relative stability of commodity prices alone.

Such is the history of the transactions of this pioneer of banking technique in Bombay. The commercial expansion of the city soon prompted the merchants to found a Bank and derive full advantages from an increased use of paper credit. In 1840 was started the Presidency Bank of Bombay. But this quasi-state Bank should on no score be mistaken for the "Bombay Bank" which must be considered as the earliest Bank of Bombay. Both were different institutions. It is evident that the contention of C. N. Cooke and other writers who repeat the same story that the Hindustan Bank was the Earliest European Bank in India cannot be any longer considered as true and accurate information. This earliest Bank of Bombay must undoutedly be considered as the Earliest European Bank in India. This Earliest Bank of Bombay is, therefore, of some historical interest as being one of the first of its kind.

CHAPTER II.

THE BOMBAY MILITARY SAVINGS BANK.

Introductory.—The Origin of the Bank.—The Plan of the Bank.—Its Book-keeping.—Its deposit receipt.—Other regulations.—Its actual achievements.—Attempt at expansion.—Abstract Report of the Native Regimental Savings Bank—1832. Reasons for the paucity of deposits.—When was it closed ?—The Reinauguration of the Regimental Savings Bank in 1854.—Its main lessons to us.

INTRODUCTORY.

It is indeed a pity that no research student in Banking has drawn attention to this institution. My first attention was drawn to this subject when I studied in detail the history of the Bengal Military Savings Bank and its chequered fortune. Except an occasional mention of it, even the contemporary Asiatic Journal does not furnish the actual details that led to the starting of the bank, the period of its existence, its actual management and other informative details from which the present generation might hope to draw any interesting lessons. While the transactions of the Bombay Military Fund, which should not be mistaken for the Bombay Military Savings Bank, are freely quoted in the Public Proceedings of the Bombay Government even a

casual mention of the existence of the Bombay Military Savings Bank is not forthcoming. The Index to the Diary and Consultation Book does not mention this as a separate item. While the transactions of the Government Savings Bank are fully recounted every year, the details of this institution have escaped the attention of all research students. It is indeed a pity that even the Military Consultations do not pay enough importance to this institution and there is no separate compilation of the records on this subject.

THE ORIGIN OF THE BANK.

The starting of the Bank was due to the loss sustained by one non-commissioned officer whose baggage was plundered by the Bheels. While on his march from Pintsae to Meywar, one Havildare Major Davising of the 1st Granadier Battalion Regiment lost about Rs. 355 which he acquired during a long period of nineteen years. [1] As soon as the said loss was reported and compensation claimed by the Major, a Court of Inquiry was held. It came to the conclusion that the petitioner had the actual money which was unfortunately lost when the baggage was plundered by the Bheels. The Commander-in-Chief was requested to consider the advisability of opening a Savings Bank for the native sepoys so as to provide a safe place for their savings. On his forwarding the actual and full correspondence

(1) This incident happened on 14th April, 1827.

with reference to the above-mentioned incident a Committee was appointed to report on the best mode for carrying the arrangement into effect(2). The Deputy Accountant General, the Military Paymasters at the Presidency and the Military Officer commanding the Jhansee Battalion were requested to serve on the above Committee (3) and after deliberating for a period of three months it wrote out a report considering the advisability of the starting of the Military Savings Bank for the Native Sepoys.(4)

General orders were passed carrying into effect the above recommendations. As the preamble to the orders briefly recounts the object in starting the Bank it is worth while to quote its exact words in this connection.

" Applications and claims having been at various times preferred by the sepoys for loss of money carried about their persons or with their baggage and it, being impossible and contrary to every principle that Government should be accountable for private property carried about at the caprice of Individuals, yet being desirous that the Sepoy should be afforded every facility in the way of depositing his savings

(2) The original plan mentioned in the G.G.O. was altered by the Committee and the initial deposit of Rs. 25 insisted upon by the G.G.O was reduced to Rs. 5 by the Committee.

(3) *See* Military Consultations—1st April, 1829, No. 165 and 176.

(4) For a draft report of the Committee's findings see Military Consultations 1st April, 1829 and also Nos. 42 and 43 of 15th July, 1829.

in a place of security " it came to the conclusion that a savings bank should be started for the sepoys.

THE PLAN OF THE BANK.

" Any sepoy who desired to deposit a sum of not less than rupees five may forward it with an application, through the Officer Commanding his Company to the Paymaster of the Regiment who will grant him a receipt for the amount countersigned by the Commanding Officer upon which an interest of 4 per cent. will be allowed from the day on which the total deposit sum accumulated to Rs. 25 provided that it is not called for within three months.

" The Paymaster of every Corps on the receipt of such deposits is to prepare at the end of each month a list in duplicate of the names of the sepoys who may have made a deposit and the companies to which they respectively belong specifying in a column against each individual name and the sum deposited by him with the date and pay over the aggregate amount to the Paymaster of the Division or District who will remit the same immediately to the Sub-Treasurer by draft on the Military Accountant accompanied by a detailed list."

It was also determined that " as soon as the deposit of any individual sepoy shall amount to Rs. 1000, the Sub-Treasurer will upon application from the Regimental Paymaster, through the Division or District Paymaster transmit the usual Treasury Bill or other Government certificate in each man's

name (bearing 4 per cent. interest per annum) to that officer who will deliver it to the Regimental Paymaster for the purpose of being substituted for the receipts first granted which are then to be considered as cancelled."

Provision was also made for "the withdrawal of deposits and should any Sepoy require to withdraw a part of his money provided it was not under Twenty-five Rupees he was allowed to do so." A receipt in duplicate specifying the name of the Sepoy bearing the countersignature of the Commanding Officer and Paymaster of the Regiment being presented to the Division or District Paymaster or the Collector in the presence of these officers; he was to charge the same to the Territorial books.

The payment of annual interest on the deposits was to be discharged in a similar way.

BANK BOOK-KEEPING.

The following documents were drawn up to facilitate the above transactions and the whole book-keeping of the Military Savings Bank consisted in filling up these documents carefully. The documents are self-explanatory and need no further comment.

A

Regiment Native Infantry.

List of sums deposited by sepoys in the Regiment for the month of under sanction of G.G.O. dated....................

Names.	Company.	Date of Deposit.	Amount.	Remarks.

Total Deposited Rupees

To the Paymaster.

A A

PAYMASTER-

REGIMENT.

A copy of the above document was to be sent to the Commanding Officer of the Regiment itself. This was evidently meant as an internal check ensuring prompt and correct entries.

B

Sepoy Saving Fund.

List of sums deposited by Corps serving in the Division of the Army under sanction of the G.G.O. dated..............for the month of..............

Corps.	Names.	Date of Deposit.	Amount of each.	Total of each regiment.

Total Rupees

The B form is thus a consolidated statement giving an accurate idea of the total savings made by the sepoys in the Army as a whole,

Its Deposit Receipt.

While the originally formulated plan did not contemplate the issuing of a separate deposit receipt, the Committee which made several minor improvements on the original plan suggested the issuing of a deposit receipt to each individual sepoy making the deposit.

"I hereby certify that Sepoy.........of the Company of the..............Regiment native Infantry has under the G.O. of.........paid into this office the sum of rupees Twenty-five which is to bear interest at 4 per cent. from.........being three months from the date of the last payment made by him to complete that sum."

Bombay.............. AB

Division Paymaster.

Other Regulations.

The possibility of outsiders depositing sums in the sepoy savings bank under false names was not ignored. It was guarded against by declaring that the said deposit would be confiscated, as soon as it has been detected that an outsider has made the deposit.

It must not be considered that such a regulation was meaningless and altogether unnecessary. Even the present-day Post-Office Savings Bank did experience a lot of trouble by the depositors opening several accounts in order to defeat the intentions

of the law which fixed the actual maximum deposit limit. (5)

Its Actual Achievements.

On the 7th April, (6) the Bank was formally inaugurated. But adequate and sufficient precautions were virtually taken before its actual starting so that the sepoys might not fail to take advantage of the above institution. The G.G.O. was translated into the Maharatta and the Hindostanee languages. The whole scheme was also systematically explained to the sepoys at the monthly muster parades. Forms A., B., and forms of the deposit receipts were lithographed and circulated to the various Paymasters in the manner proposed by His Excellency the Commander-in-Chief on 2nd April, 1819.

Attempt at Extension.

The advisability of extending the Savings Bank was discussed in 1832. The Chaplain at Poona, Mr. D. Young suggested the desirability of extending the Bombay Military Savings Bank to the European Troops and the raising of the rate of interest to five per cent. Mr. Thomas Carr, the Acting Archdeacon, while forwarding the above letter suggested the necessity of adopting these measures. This letter which was addressed to the Bombay Council was

(5). *See* Sir G. Clarke—"The Post Office of India."

(6). *See* Military Consultations No. 26—7th April, 1830. Letters were despatched to the Accountant General and the Sub-Treasurer informing them of the general orders with reference to the establishment of the B.M.S. Bank,

promptly referred back to H. E. the Commander-in-Chief who after properly considering the above letter in all its bearings came to the conclusion that the plan would be a failure [7]...But the Bombay Council held the opinion that the plan could be easily extended to confer the benefit on the European soldiery also, but placed the matter solely at the discretion of H. E. the Commander-in-Chief.[8]

Evidently the success of the above petition prompted the Hospital Assistants attached to the Army to forward a similar request for the purpose of entitling them to the benefits of the Savings Bank.

This request was promptly forwarded to the Adjutant-General who in turn despatched it to the Military Auditor General.[9] The latter individual placed the matter finally before the Military Board. On 6th November, the Military Board passed orders refusing "to extend this coveted privilege to anyone else."[10]

Abstract Report of the Native Regimental Savings Bank.—(1829-1832).

As every new measure had to be submitted to the Hon'ble the Court of Directors at home for their perusal and ultimate approval, the starting of this

(7). *See* Military Consultation No. 1054.

(8). .. .. .. No. 1056.

(9). .. .. .. No. 4945—23rd October, 1833.

(10). .. .. .. No. 4946—6th November, 1833.

savings bank was duly reported by the Bombay Government. The Hon'ble the Court of Directors requested the Bombay Government to furnish it with an idea of its operations.(11)

The following abstract report was furnished in reply to the Hon'ble the Court's request. It can easily be gathered that it was not a distinct success and it was only very few sepoys that took advantage of this measure.

	Corps.	Substance.	Remarks.
1st	Regt. of Light Cavalry	No instance has occurred of the Savings Bank having been taken advantage of by any of the Native Commissioners or Non-Commissioned Officers or troops.	..
2nd	Do. ..	No sepoy offered to deposit even one rupee.	..
3rd	Do. ..	Do.	..
	Golundaze Battalion ..	Do.	..
1st	G. Regiment N. Infantry	Do.	..
2nd	Regiment N. Infantry ..	Only one Native Officer made a deposit of 600 rs.	..
3rd	Regiment N. Infantry ..	No deposit by any rank in the regiment.	..
4th	Do. ..	Do.	..
5th	Do. ..	Do.	..
6th	Do. ..	Do.	..
7th	Do. ..	Do.	..
8th	Do. ..	Do.	..
9th	Do. ..	Do.	..

(11). *See* para. 12 of their letter, dated 30th March, 1831.

Corps.	Substance.	Remarks
10th Regiment N. Infantry ..	No deposit by any rank in the regiment.	
11th Do. ..	Do.	
12th Do. ..	Do.	
13th Do. ..	Do.	
14th Do. ..	Do.	
15th Do. ..	Do.	
16th Do. ..	Do.	
17th Do. ..	Do.	
18th Do. ..	Do.	
19th Do. ..	Do.	
20th Do. ..	Do.	
21st Do. ..	Only one individual Jemadar has taken advantage of this.	
22nd Do. ..	No deposit by any rank ..	
23rd Do. ..	Do.	
24th Do. ..	Do.	
25th Do. ..	Do.	
26th Do. ..	Do.	
Marine Battalion	Do.	
Native Veteran	Do.	
Guzerat Provincial ..	Do.	
Engineer Corps	Only one Havildar deposited Rs. 225; one sepoy deposited about Rs. 60.	

Sd. J. Keith-Major,
Acting Adjutant General of the Army.

The main reason why the Commander-in-Chief seriously doubted the utility of extending the Savings

Bank to the European section of the Army, is now apparent. He was of opinion that the response would be indeed as poor as that on the part of the sepoys.

REASONS FOR THE PAUCITY OF DEPOSITS.

The success of a Savings Bank depends on two factors. Firstly, there should be savings on the part of the people. Secondly, there should be willingness to entrust the same to the existing savings institutions. A Government-managed Savings Bank can necessarily create the needed confidence on the part of the people provided they understood the utility of savings[12] and though the will to save might exist the power to save might be non-existent. The low salary paid

(12). The Native officers and sepoys of this period were uneducated. The moral as well as the intellectual state of the Native Army was indeed very low. The following return exhibits the state of the educated in the Native Army of Madras in 1831.

Cavalry and Horse Artillery	..	726	can only read out of	4,966
Fort Artillery and Infantry	..	7226	,, ,, ,, ,, ,,	39,388
Sepoy Recruit Establishment	..	280	,, ,, ,, ,, ,,	4, 321

The original return exhibits two very remarkable circumstances which merit notice. These are first, that in one regiment of cavalry and in the horse brigade of the artillery there is not a single native officer or havildar-major (Serjeant-major) who can read and the same occurs in the case of all the Subedars of cavalry and two of horse artillery. There are four corps in which no subedars or native captains can read. The second is the very small portion of the sepoy recruits that can read and for whose education regimental schools exist. These admirable institutions consist of the sons of deceased sepoys above seven and between twelve years of age, in each regiment, who receive half-pay and are trained till of an age to enter the army.

Mutatis mutandis, this same description was equally applicable to the armies of Bengal and Bombay and for the Madras army in 1852.

Quoted in the Edinburgh Review—The India Army,
Jany. 1853. pp. 208-209

to the Native sepoys[13] was the sole reason for the lack of savings deposits on their part. The miserable pittances paid to the sepoys, the jemadars, the havildars and the subedars must have precluded the possibility of making any saving. A reference to the Minutes of Evidence recorded before the Select Committee of 1832-1833 gives us an idea of the low-pay of the European and Indian troops. The actual expenses to which the Company was put to were as follows in 1830.

EXPENSES PER HEAD.

Province.	Cavalry.		Artillery.		Infantry.	
	European.	Indian.	European.	Indian.	European.	Indian.
	£	£	£	£	£	£
Bengal ..	100	64	61	28	59	30
Madras ..	109	90	81	45	68	35
Bombay ..	107	87	90	46	67	32

The *total expenses* must not be mistaken for the *actual pay* granted which must have been far lower than it. With very little power to save they could hardly have saved any decent sums for they had to support their relatives and other members of the family.[14]

(13). The pay of the sepoy is, we believe, five pence half-penny a day, out of which he is obliged to find linen and the materials for keeping his arms and accoutrements in order. It takes him, on an average, from 5 to 7 years to become a Naik or Corporal about ten more to reach the grade of havildar or sergeant and twenty or it may be thirty in all to earn his first commission when his pay is raised to 1s. 4d. a day. In his turn he becomes a subedar or captain with pay at the rate of half-a-crown per diem and finally, if he lives and his constitution does not fail altogether, he may become subedar major, with five shillings a day. *Ibid*, p. 210.

(14). It was the habitual practice of the sepoy to be married and of 250,000 men of the sepoy force only 10,000 were unmarried. Most of the married sedoys had families to be supported out of their pay. *Ibid*, p. 214.

WHEN WAS IT CLOSED?

With the opening of the Bombay Government Savings Bank, [15] the state of things became different and in order to save the incidental worry on the part of the military officers it was soon decided to close the Bombay Military Savings Bank. The Bombay Government soon closed the Bombay Military Savings Bank and gave the option to the depositors to transfer the account including the interest to the Government Savings Bank or withdrawing it altogether as all interest would be discontinued from 1st May, 1839. [16]

The management of the deposits of the European soldiers by the G. S. Bank was not liked by them and in 1848 we find them petitioning to the Court of Directors against the disadvantages under which they were labouring. It was pointed out that "they were subject to disadvantages under which they could not transfer their savings deposited in the G. S. Bank through the Company's treasury to England when these deposits exceeded one year's pay of the soldiers." Secondly, "owing to fluctuations in the value of Government Paper the soldiers suffered greatly when their deposits above Rs. 500 were converted into Government Paper and when they were realised into cash at the time the Government Paper was at discount."[17]

(15). It was instituted in May, 1835.

(16). *See* the Government Notification, dated 11th March, 1839 of the Bombay Castle quoted in the Asiatic *Journal*—June 1839, p. 147.

(17). *See* the General Financial Letter from the Court to Bengal No. 9 of 1848—7th March, 1848—Para. I.

The Court of Directors recommended the holding of the Treasury-note having interest at 4% instead of holding government securities when their deposits were higher than Rs. 500. This was a stop-gap arrangement which led ultimately to the appointment of the Regimental Savings Bank.[18]

The Reinauguration of the Regimental Savings Bank in 1854.

With the view of offering increased facilities for depositing their savings the G-G. of India in Council[19] directed the establishing of Regimental Savings Banks in each Brigade and Battalion of the European Artillery and in each Regiment of European Infantry at the three different Presidencies.

The Regimental Savings Banks which began their business on 1st February, 1854 were really branches of the Government Savings Bank and all balances of the soldiers[20] in the Government Savings Bank were transferred to the books of the Regimental Banks.

The plan of [21] its working, the book-keeping[22] and the accounting[23] methods adopted in the

(18). *Ibid.* Para 5.

(19). *See* the Notification of the Bombay Government in the Bombay Castle Gazette—26th Jany., 1854.

(20). *See* Clauses 31 of the above Notification.

(21). „ „ 1 to 5 of the Notification.

(22). „ „ 11, 12, 13, 15, 17, 19, 20 of the Notification.

(23). „ „ 14, 16, 18, 19, 24, 30.

running of the Regimental Savings Bank were more carefully drawn than in the case of the Bombay Military Bank.

Attention must, however, be drawn to the most important and new features attached to this organisation. Firstly, there was the right to remit the deposits to their families residing at Home at the rate of exchange of 2*s*. 0½*d*. [24] for every rupee. Secondly, the consideration of the deposit sum as a "trust fund" was stated both explicitly as well as implicitly. This conception was so thoroughly enforced that "whenever the Officer commanding the Troop or Company shall have grounds for believing that the soldier intends to make an improper use of his money he will be permitted to withhold the privilege of withdrawing the deposit until the Commanding Officer of the regiment shall determine whether it should be issued or not and should the Officer Commanding deem it essential to withhold from a soldier, the privilege of withdrawing his deposits, he shall report specially to the Commander-in-Chief the circumstances under which he had felt himself compelled to exercise this power."[25]

While the idea of trust was indirectly enforced by such salutary measures, it was more openly and directly stated in another clause as follows [26] :—

(24). *See* Clause 26 of the above Notification.

(25). *See* Clause 6 of the Notification.

(26). *See* Clause 7 of the Notification.

"All monies deposited by the soldier in the Regimental Savings Bank shall be held strictly in trust for his own use and benefit and shall on no account be transferable to any third party, either by endorsement, conveyance or otherwise and shall not be affected by any debts contracted by him, nor be made available for any purpose whatever except under his own order, signified to the Officer commanding his troop or Company and such monies shall, if possible, be paid to the soldier, personally and in all cases his receipt shall be obtained and shall be attached to the troop or Company's Savings Bank Ledgers."

Its Main Lessons.

It is inexplicable why this idea of the Trustee Savings Bank was not grasped by the Indian public. In other[27] countries Savings Banks of different kinds exist and the Trustee Savings Bank is one important type which gathers a large volume of savings and invests the same safely through its own Investment Department. In present-day England, the commercial Banks consider them as "formidable competitors" tending to encroach on their own legitimate sphere of work. [28] In this unfortunate land, this original idea was not developed and no Trustee Savings Banks have been created. If the task of mobilising the capital of the country is to be efficiently

(27). *See* H. G. Moulton—"The Financial Organisation of Society."

(28). *See* the Article on Trustee Savings Banks, June, 1929, The Banker's Magazine—London.

discharged, the creation of such trustworthy agencies cannot be postponed for any length of time. Acting as "feeders to the money market," they can easily fill in the gap where the field is not adequately covered by the Post Office Savings Bank or the Co-operative credit society. They cannot, however, succeed in our community unless it possesses to an increasing extent more exceptional credit and greater financial strength.

Another reasonable privilege which the Post Office Savings Bank sought to confer on the depositors is the privilege of exempting the deposit from being available to the creditors of the depositor-borrower. The deposit or a portion of it should not be made available or answerable for any of the debts contracted by the depositor. Unless this valuable privilege, which the Regimental Savings Banks once conferred on their depositors is resuscitated, there is no great hope of increased savings being attracted by the present-day Post Office Savings Banks.

It is often stated by some of the historians that the administrative authorities of the John Company did not pay much attention to the welfare of the children of the soil. Taking the instance of the Bombay Military Savings Bank into consideration, it clearly follows that these vague apprehensions and charges are untrue. Every serious student of the history of this Bank must admit that the welfare of the native sepoys actuated the Government to open the above Institution. However, it was the lack of real power

to save that stood in the way of its actual success. "Man proposes God disposes" says the popular adage. The lack of real response on the part of the sepoys was due to their inability to save. The actual success of this attempt was circumscribed within narrow limits. No wonder it did not succeed in rendering any very real service to thrift in an area in which facilities for saving were purely non-existing.

CHAPTER III.

FUTILE ATTEMPTS TO FOUND BANKS IN BOMBAY.

Introductory.—The First Attempt of 1822.—The Final plan of the Bank.—What became of the proposal.—The Second Attempt.—A Committee to alter the plan and its suggestions for improvement.—What became of the proposal.—The real reasons for the delaying of the Bank.—A historical parallel.—Other deposits of the General Treasury.—Judicial Deposits.—The position of the General Treasury.—Summary of the attempts.—An examination of the reasons of the Court of Directors for disapproving the schemes.—The Court of Directors' view of the functions of the Treasury-note.—The modern Treasury-Bill.—Conclusion.

INTRODUCTORY.

It is indeed a pity that attention has not been drawn up till now towards the unsuccessful attempts made to found Banks in Bombay. Even the British Parliament thought it fit to reprint the proceedings with reference to certain attempts(1) made in London to found banks there with the view of conducting

(1) *See* the Parliamentary Paper entitled. "The Projected Bank of Asia" printed in April, 1843. Similarly, the scheme of the London Merchants to found a big bank in 1836 ought to have been printed together with all the Minutes of the Bank of Bengal on this important scheme.

business in India also. But these humble attempts have not been mentioned by any other writer on Indian Banking as yet. Nevertheless it is a mistake to write off as of no value these plans of the earlier days.

THE FIRST ATTEPMT OF 1822.

Smarting perhaps under the disgrace of not possessing a Bank of their own while the sister Presidencies of Bengal and Madras had such useful institutions and realising that a Bank would give the needed impetus towards the further increase of their slowly expanding trade the citizens of Bombay soon organised themselves into a body and made a concrete proposal to found a Bank in Bombay. A meeting was held on 10th October, 1822 by the Native and European Citizens of Bombay to form a Bank in Bombay. It was presided over by Sir Roger de Farea. A plan for the founding of the Bank was communicated to the Bombay Government for its sanction. As the object of starting the Bank and the proposed plan of action were noted down in different resolutions an exact copy of these resolutions is given below.

It was unanimously agreed———

1st.—That the establishment of a Bank on a respectable footing at this Presidency is a measure which would be attended with consequences highly beneficial to the commerce of the place.

2nd.—That towards attaining that object it is advisable as a preliminary step to make an application to the Bombay Government for a Charter of Incorporation which they were empowered to grant by the Act of Parliament—passed in the 47th of George III and Chap. 68.

3rd.—That certain regulations which have now been read to be transmitted along with the application as being the basis upon which the Bank is proposed to be established subject, however, to a further revisal.

4th.—That as the participation of Government in this undertaking would be highly advantageous to its ultimate success, a solicitation to that effect be made at the same time in the name of the meeting pointing out that such alteration on the General Plan could then be made as might appear necessary for conducting the business on a more public footing.

5th.—That Mr. William Nicoll, one of the Gentlemen now present be empowered to make such application in the name of the meeting and solicit the early attention of Government to that object.

Roger de Farea, *Chairman.*

The Final Plan of the Bank.

The Bombay Government examined these tentative suggestions in the light of the understanding derived by an intelligent study of the plans of the banking establishments at Calcutta and Madras. The original plans of the Bengal and Madras Banks were secured and in the light of their understanding

the above proposals were thoroughly scrutinised. The Accountant General objected to several of the features of the proposed "Bombay Bank." He rightly upheld the view that an inadequately capitalised Bank as the "proposed Bombay Bank" would fail to realise the aspirations of the founders. Hence he suggested the increase of the capital from 10 lakhs to 20 lakhs of rupees. As for the concession of receiving the bank-notes at the Treasuries as equivalent to cash he opined "that it could be safely granted under certain stipulations with regard to the right of inspection of the Hon'ble the Court of Directors." He suggested the redrafting of the original proposals and the granting of a Charter subject to the Court's final approval to enable the starting of the "Bombay Bank."

With the view of securing a Charter Mr. William Nicoll redrafted the original plan incorporating all the above mentioned suggestions of the Accountant General. (2) The share capital was increased to 200 shares of Rs. 1000 each. The revised regulations (3) followed the established precedents of the Bengal and Madras Banking institutions. So a Charter of Incorporation, subject to the approval of the authorities in England was actually granted on 6th

(2) This was done on 6th January—1823 by William Nicoll. For a copy of the revised draft of the proposed "Bombay Bank" No. 2 scheme *See* Papers, General Consultation accompanying No. 19, 1823.

(3) There were altogether 39 clauses in the Revised draft while the originally submitted draft contained only 37.

January, 1823 by the Hon'ble the Governor-in-Council. This Charter of the "Bombay Bank" was sent for confirmation and opinion to the Hon'ble the Court of Directors. (4)

What became of the Proposal ?

The Court of Directors however refused to sanction the proposal and the sole reason which made the Court of Directors hold this opinion was "that there was no prospect of public benefit arising out of the starting of a Chartered Bank." (5)

The Second Attempt.

If these well-meant efforts failed in 1822 circumstances did not prove any more hospitable in 1827. Even the efforts of the Bombay Government ended in failure. The second effort was due to the Government Officials who engineered the whole scheme and Mr. Wedderburn was the author of this proposal. The reason for the starting of the Bank can be easily understood by noting the Ways and Means advances of the Government of Bombay in 1825-1826.

Ways and Means Programme.

Expenditure.			Rs.	Rs.
General Department	..	Ordinary Expenditure ..	3,972,900	..
		Extraordinary Expenditure	3,254,600	72,27,500

(4) On 13th January, 1823 the revised rules and the conditional grant of a Charter were sent to the Court of Directors by the Bombay Government.

(5) *See* the Letter from the Court of Directors—9th July, 1824. Letter No. 40 General Department (1824).

		Rs.	Rs.
Expenditure.		B/F ..	72,27,500
Revenue Department ..	Ordinary Expenditure ..	46,72,500	..
	Extraordinary Expenditure	4,01,300	50,73,800
Judicial Department ..	Ordinary Expenditure ..	23,56,100	..
	Extraordinary Expenditure	77,500	24,33,600
Marine Department ..	Ordinary Expenditure ..	13,54,700	..
	Extraordinary Expenditure	2,89,800	16,44,500
Military Department ..	Ordinary Expenditure ..	1,97,20,300	..
	Extraordinary Expenditure	13,53,700	2,10,74,000
Total of the Territorial and Political charges of the Presidency.	Total ..	..	3,74,53,400
Internal Revenue.			
General Department ..	Ordinary Revenue ..	3,38,100	..
	Extraordinary Revenue ..	42,42,000	45,80,100
Revenue Department ..	Ordinary Revenue ..	1,95,58,300	..
	Extraordinary Revenue ..	72,300	1,96,30,600
Judicial Department ..	Ordinary Revenue ..	1,09,300	..
	Extraordinary Revenue ..	..	1,09,300
Marine Department ..	Ordinary Revenue ..	1,13,800	..
	Extraordinary Revenue ..	50,000	1,63,800
Military Department ..	Ordinary Revenue ..	47,200	..
	Extraordinary Revenue ..	2,34,000	2,81,200
	Total ..	..	2,47,65,000

Thus there was a deficit of Rs. 1,26,88,400. To cover it the ways and means programme adopted was as follows—

The Balances of the General Treasury and subordinates on the 1st May, 1825 were roughly Rs. 81,78,000	Rs.	81,78,000
The Supplies from London *minus* disbursements were to amount to about roughly Rs. (1,50,87,000 – 25,61,700) ...	Rs.	1,25,25,300
The Supplies from the Fort Saint George Presidency *minus* disbursements were to amount to roughly Rs. (51,31,300 – 26,13,300)	Rs.	25,18,000
The Supplies from the Prince of Wales Island	„	13,200
The Supplies from the Territorial to the Commercial Department for the purchase of Investment out of which the amount received from the sale of Imports would amount to roughly Rs. (12,38,700 – 5,90,300) ...	„	6,48,400
The Supplies from the Cape of Good Hope Government *minus* the disbursements made on its behalf would amount to roughly...	„	1,800

The Suppplies from the Government of St. Helena *minus* the disbursements made here in the Civil and Marine Departments on account of that Government would amount roughly to ...	,,	2,500
So the total of the ways and means programme would amount to roughly	,,	2,38,87,200

Out of this total sum available the deficiency in the internal resources would have to be met and after deducting these funds there would remain roughly (*i.e.*) taking Rs. (1,26,88,400 out of 2,38,87,200) there would be a balance of Rs. 1,11,98,800 corresponding roughly with the balances of the General Treasury and Subordinates on the 30th April, 1826.

The above figures taken from the Manuscript Records disclose the difficulties to which the Bombay Government was usually put to, to meet expenditure far heavier than her internal resources.[6] To lessen this habitual dependence of the Presidency on others and to establish a sound financial position, the idea of a Bank as a branch of the General Treasury was suggested by Mr. Wedderburn. The main advantage was to remove all these "inconvenient

(6) Even in the earlier period from 1770-1780 the expenditure was always greater than the revenue and this deficiency was made good by means of aids received from Bengal. *See* the Fourth Report of the Committee of Secrecy—1782. *See* also the Report of the Select Committee on Indian Affairs—1832-1833 for the accounts of the Bombay Presidency from 1823-1824 to 1828-1829.

consequences" and be prepared to meet all the expenses and even a "run on the Treasury" was to be checked by a timely issue of bank-notes payable to the bearer.[7] "Though this was the sole reason for the starting of the Government Bank the "favourable circumstances of the money market" which would tend to make paper currency acceptable to the people were also cited as an additional reason for the starting of the Government Bank.

This proposal was immediately submitted to the Supreme Government for "confirmation and opinion."[8] To formulate the details of the scheme itself and prepare the working arrangements of the Bank, a Committee of three officers was appointed. Mr. Wedderburn, Mr. Bax and Mr. Bruce were the members of this Committee.

THE WORK OF THE COMMITTEE.

This Committee examined the plans of the Bengal and the Madras Banks and as the attempt was to start a Government-owned and Government-managed Bank, the model of the Madras Government Bank started by Lord William Bentinck, which was forwarded by the Government of the Fort St. George Presidency, was approved with some improvements planned by the Committee mainly to overcome the acknowledged defects of a purely

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(7) *See* the Financial Letter of the Bombay Government to the Court of Directors.—Column containing the Letters of 1827-1829.

(8) *See* the Financial Consultations 3 and 4—dated 2nd April, 1827.

Government-owned Bank.[9] The chief points of improvements were as follows. Firstly, they fixed a definite amount of capital at fifteen lakhs of rupees.[10] Secondly, the bank-notes were to be made receivable in all payments to the Government at the General Treasury and other public offices and provincial treasuries. Thirdly, the minimum denomination of the note was fixed at Rs. 10, while the maximum was to be Rs. 10,000. Though the Bank was to be a Government Bank and act as a branch of the General Treasury under the charge of the Sub-Treasurer the details of the transactions of the two departments were to be kept distinctly separate. Fourthly, no cash account was to be opened with any customer for sums below Rs. 5000. Lastly, the Head Cash Keeper alone of the Establishment of the Bank was to furnish security. It was resolved to keep the expenses as low as possible and never higher than Rs. 6000 so that an annual profit of Rs. 50,000 could be obtained from the operations of the Bank. It recommended the starting of the Bank as an experiment for two years.[11]

WHAT BECAME OF THE PROPOSAL ?

Although one can speak highly of the labours of the Committee and although the above mentioned

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(9) *See* the Financial Consultations, No. 15—14th March, 1828.

(10) This lower limit must have been fixed as a result of their previous experience. It was meant solely to escape the criticism that it was overcapitalised. It was on this ground that the 1822 attempt was defeated by the Hon'ble the Court of Directors.

(11) *See* the Financial Consultations,, No. 13—1827.

real improvements were made on the original plan of the Madras Government Bank still the Supreme Government vetoed the suggestion and recommended the issuing of Treasury Notes bearing interest of 4 raes per cent. per diem and equivalent to 3 and 13-20% per annum. It was also recommended that these might be received in the Government Treasury in payment of Government demands and be made payable at the option of the Government on a notice of thirty days previously published in the Gazette. This was considered "a better mode of affording temporary relief to the General Treasury [12] than the doubtful one of starting a bank." The endeavour to launch on a full fledged Bank and depend on its own note-issue for securing temporary accommodation to the Treasury was considered a folly. But the scheme was duly reported to the Hon'ble the Court of Directors who, however, refused to sanction it. In para. two of their Letter to the Bombay Government their final orders were communicated as follows.[13] "Under the circumstances of your Presidency we do not think it expedient to sanction

(12) Mr. H. T. Prinsep, Secretary to the Government of India was the chief critic of the plan. His fundamental objections to the idea of a Government Bank should be grasped. Firstly, it would tend to become "a political engine." Secondly, it would lead to the abstracting of a large proportion of the floating available capital from the market and thirdly, if such capital is already floating in the shape of T. Notes or other Government Paper to a large amount it would tend to direct it into the new channel of the bank in preference to redeeming it. *See* the Letter dated 7th Feby., 1828—Financial Consultations—No. 14—Fort William.

(13) *See* the Letters to the Bombay Government from the Court of Directors, 1830—6th Jany. 1830.

the establishment of a Government Bank at Bombay."

The members of this Committee were accordingly informed of this decision and the plan had to be given up in spite of its immense superiority to the suggestion of issuing treasury notes. It was not recognised that the issuing of treasury notes was after all no real relief. It meant only the postponing of the evil day of actual payment. It must have meant definite loss as the payment of interest on the same was necessary so long as they were left unredeemed. The issuing of bank-notes meant a saving of the above interest. In addition to this fiscal advantage the general public might "have had the benefit of sound and convenient currency in the absence of gold from circulation." So long as the bank-notes were issued on the faith of specie, bullion, and good mercantile bills payable at short sight or other negotiable securities, as it was proposed by the Committee to do, there was no reason to doubt the solvency of the Bank itself.

Real causes for the Delay.

One important feature of the Presidency, which must have been responsible for the delaying of the starting of a Bank must be alluded to. It is indeed a pity, why either the organisers of the above schemes or their critics did not draw any attention to this feature. The General Treasury was acting as a place of security and deposit for the balances entrusted to

it by the merchants and businessmen and even permitted the transfer of these deposits to one another.

For about a series of years, the Bombay Treasury acted as a deposit place or Bank to the mercantile community.[14] Originally meant as an indulgence conferring great relief to the merchants, it was gradually extended and deposit receipts were given after the shroff counted the sums. These deposit receipts soon became transferable and were used for making large payments. Unconsciously the Treasury soon developed into a Bank of Deposit and Issue. Until the Acting Sub-Treasurer, Mr. Elliott dissuaded this practice in 1837, the General Treasury was unwittingly filling up the gap or void created by the absence of a Bank. The General Treasury thus delayed the necessity for the starting of a Bank, though it, by no means, performed all the functions of a Bank.

HISTORICAL PARALLEL.

A historical parallel can be easily drawn from the field of English Banking. The Goldsmiths of England similarly performed the functions of a Bank as a place of safe deposit but the high rates of interest charged by them rendered it imperative to start a Bank. The formation of the Bank of England was

(14) *See* Mr. E. E. Elliott's Letter—dated 10th July, 1835.

See also the Letter, dated 11th January, 1837, addressed to the Chief Secretary to the Government of India written mainly with the view of convincing the Government of the necessity of starting the P. Bank of Bombay.

delayed until 1695 when the political necessity for the existence of the Bank was keenly felt. Just as the "goldsmiths were the immediate forerunners" of modern Banks in England and their "running notes" were the germs out of which modern bank-notes have sprung up, so also the General Treasury of Bombay was the immediate forerunner of the Presidency Bank of Bombay. The popularity of its deposit receipts must have paved the way for the easy acceptance and great popularity of the notes issued by the Presidency Bank of Bombay.

There was indeed no payment of interest on these deposits made by the businessmen. The Goldsmiths on the contrary paid interest on the deposits attracted by them and their "cash notes" or running notes were also paid interest on the number of days in circulation. The original bank-notes of the Bank of England were paid interest. We have already seen how the notes of the Earliest Bank of Bombay were organised on the same principle of paying interest to the note-holders.

Other Deposits of this General Treasury.

There were two other kinds of deposits in the General Treasury which must not be confounded with the deposits of the mercantile people. Firstly, there were the deposits which the Company's European Servants had to compulsorily deposit whenever native servants were taken along with them to England. European officers returning to London

or England generally took women servants along with them and the deposit of a certain sum had to be made on the supposed undertsanding that if they (servants) were to be stranded in England, the East India Company was morally bound to send them back to India. This deposit amount was usually returned by the General Treasury as soon as the servants became completely domiciled in England and showed no desire or inclination to return back to the country. The deposit was also paid back to the officer as soon as the native servant returned and the Governor-in-Council was apprised of that fact. Originally a sum of Rs. 400 was insisted upon as the necessary deposit sum for every native servant. It was raised from Rs. 400 to Rs. 800 and in 1831 it was reduced to Rs. 500.

It was one of the duties of the General Treasury to prepare annually the Register of Deposits on account of the Native Servants who accompanied the passengers to England. The deposits were always paid back with interest as soon as a valid claim for their return was made. A specimen of the Register of Deposits on account of Native Servants prepared in 1843-1844 makes it clear that certain of these deposits were lying dormant or unclaimed in the General Treasury for quite a long time. Even now well-established modern Banks find sometimes huge balances belonging to the depositors lying unclaimed for quite a long time. These sums act as a source of great material strength and increase the

working capital of the Banks. The attempt to confiscate these dormant bank balances in England during the recent war period need not be referred to in this connection. It was rightly held by the Dormant Bank Balances Committee that such a gross act of expropriation cannot be justified on any moral grounds, however urgent the need for funds on the part of the State might be.

REGISTER (END OF OFFICIAL YEAR) 1843-1844.

When deposited.	By whom deposited.	Servant's name.	With whom gone.	Per what vessel.	Amount of Deposit. Rs.
1792 Jany, 23rd.	C. M. Kiln	Roger ..	Wm. Dickson	Essip ..	400
1807 Feby., 28th.	Captain Robert Blackale.	Jack ..	Cn. R. Blackall.	Worcester	400
1807 July, 23rd.	Messrs. Forbes and Co.	Catherine	Mrs. Moquaire.	Earl Spenser.	400
1807 Jany., 15th.	Col. Henry Woodington.	John ..	Col. H. Woodington.	Devonshire	400
1807 Feby., 29th.	Mr. I. Drummond.	John Periera	..	Charlton ..	400
1807 July, 26th.	Wm. White..	..	..	..	400
1820 Oct., 2nd.	Messrs. Forbes and Co.	Nurse ..	Col. R. Lewis' family.	Brothers ..	800
1823 March, 10th.	Messrs. Forbes and Co.	Katherine	Mr. Aitkin	Almorah ..	800
1826 Jany., 21st.	Messrs. Remington Crawford & Co.	Martin ..	T. Warden	Lonach ..	800

When depositted.	By whom deposited.	Servant's name.	With whom gone.	Per what vessel.	Amount of Deposit. Rs.
1841 March, 26th.	Messrs. Remington & Co.	Maria Theresa Dickinson.	Mr. Stewart	..	500
1841 Nov., 1st.	Messrs. Frith & Co.	Amena ..	T. A. N... Sheldana.	..	500
1842 Jany., 29th.	Messrs. Remington & Co.	Ibrahim ..	A. L. Johnstone.	..	500
1842 March, 31st.	Messrs. Forbes & Co.	Bapoo ..	Mrs. Frescott.	..	4,000
1843 March, 21st.	Messrs. Remington & Co.	Marianna Roger.	Mrs. Ovans	..	500
Do. ..	Do. ..	Pedrodias	..	.. •	500
1843 March, 25th.	Do. ..	Heriza Dickinson.	Captain W.B Goodfellow.	..	500
1843 April, 29th.	Messrs. Leckie & Co.	Joseph de Lima.	Dr. R. W. Kennedy.	..	500
1843 Oct., 2nd.	Messrs. Remington & Co.	John Autom	Captain Hennell's children.	..	500
1843 Dec., 29th.	Messrs. Forbes & Co.	Caitande Dias.	Henry Hart	..	500
1844 Jany., 31st.	William Nicoll & Co.	D'Martin de Souza.	S. Wright	..	500
Do. ..	Messrs. Mc.Vicar Burns & Co.	Roza Maria	Mr. Watkins	..	500
Do. ..	L.R. Reid, Esq.	Maria Pentre Sheik Mahmad.	Mrs. Bell	..	1,000

When deposited.	By whom deposited.	Servant's name.	With whom gone.	Per what vessel.	Amount of Deposit. Rs.
1844 Feb., 17th.	Messrs. Remington. & Co.	Caistan ..	Hon. G. W. Anderson.	..	500
1844 March, 29th.	Do. ..	Syed Sydoo	Mr. Rawlinson.	..	500
1844 April, 20th.	Do. ..	Muncherjee Pasa.	Sir C.M. Wade.	..	500
Do. ..	Messrs. Forbes & Co.	Timothy ..	Mr. Lachmere.	..	2,500
1844 April, 27th.	Captain J. D. Hallet.	No Nan ..	Mrs. Hallet	..	500

Bombay Castle General Treasury,
30th April, 1844, Errors Excepted.
Sd. I. WILLIAMS,
Sub-Treasurer.

JUDICIAL DEPOSITS.

Another kind of deposit for which the General Treasury paid a certain rate of interest was the deposit made by the Hon'ble the Supreme Court of the judicature. This was abolished only in 1839. The Hon'ble the Court's Letter reprimanding the Bombay Government for this practice and relating the state of circumstances in the other presidencies with reference to this practice is very informative. The exact wording of the letter was as follows: "The continuance of this practice at Bombay for a period of ten years after we had ordered it to be put an end to and for a still longer period after it

had been discontinued at Madras (whilst in Bengal it does not appear to have existed at all) is highly reprehensible as having given to suitors and others at your presidency an advantage over similar parties at the other presidencies and although the terms of your notification of the 19th September, 1829 withdrawing the allowance of interest of the Estates of deceased persons embraced those deposited by the Supreme Court, compound interest was also granted." From a perusal of the above letter it is apparent that the Hon'ble the Court of Directors ordered the discontinuance of this practice so early as on 28th October, 1828 on the plea that the interest granted was "a burdensome charge" on the finances of the Government. It was ordered afresh on 2nd July, 1839 and these orders explicitly stated that the practice at Bengal should be followed and the facility to invest in Government Paper may be given. Thus the General Treasury occupied an important role in the financial history of the Provinces.

The Position of the General Treasury.

If a balance-sheet showing the assets and liabilities of the General Treasury were to be drawn up to illustrate its activities the following items would exhibit its nature. We are at present concerned with the "Deposits payable on demand" item. It generally formed an important item and often about twenty lakhs of Rupees were deposited under this heading in the Treasury by the businessmen and

these deposits had sometimes to be restricted due to lack of accommodation. This figure does not include the other kinds of deposits I have mentioned already.

Liabilities.	Assets.
Treasury Bills.	Gold Coins.
Accepted Bills.	Silver Coins.
Treasury orders and passes outstanding.	Copper Coins.
Specie-ordered for remittance but now included in assets.	Bank-notes (figure after 1840)
Deposits payable on demand.	Uncurrent coin.
	Gold Bullion in the Mint.

Like the Temples of Ancient Greece which were the first banks (15) to conduct remittance business as well as hold deposits of cash, the General Treasury acted as a bank. Whatever might be the importance of its activities in other directions its part as a place of safe deposit, discount (16) and issue (17) cannot be

15) Mr. H. T. Prinsep's paper or Minute "on the principles of Banking and their application to the condition of things in India."

(16) The G. Treasury discounted Government bills specially those drawn by the Court of Directors and by the Collectors and other Government officers as well as the Mint Master for bullion taken to the Mint for coinage. *See* W.C. Bruce's Letter written on 7th February, 1837.

(17) The receipts of the G. Treasury were transferred by endorsement and employed as Promissory Notes by being taken to outside places although they were not payable to order. They were convenient to handle and large payments could be easily made and like the bank post-bills they were demanded for remittance.

ignored.[18] But for its help in this direction, plans for the starting of a Bank might have been formulated much earlier than was the case. At any rate the necessity of a safe deposit agency was felt as soon as this valuable concession was withdrawn. This was one of the most important reasons which convinced the Government of the necessity of starting the Presidency Bank of Bombay in 1840.

Summary of the Attempts.

A brief summary of the aims and methods of the two attempts brings out clearly the tentative and halting character of the advances towards modern banking methods and the sharp contrast it offers to the decisive plan of the Bank of Bengal by which the currency, trade and financial situation in Bengal had been so rapidly transformed. The 1822 scheme was the more comprehensive and far-reaching in its scope. It proposed to operate the Bank on a plan of Government partnership. This attempt, however, was not accepted by the Government. The scheme provided for note-issue and for the control of the Bank by Government inspection. Had any fair trial of the scheme been made, even for a limited

(18) The District Treasuries similarly did a lot of remittance work which would have been conducted by banks had they existed at that time. The amount and date of remittances, were always left to the Collector's decision but he had to remit the surplus cash balance to the treasury to which he was usually directed to do by the Board of Revenue. The Board of Revenue had to supply this cash at the treasury mentioned by the Board of Trade to enable it to secure the necessary goods which formed the "investment." Such has been the practice followed in the different provinces. Hunter, the great historian terms these District Treasuries as "District Banks" in his "Annals of Rural Bengal."

period, the merits of the arrangement might have been grasped. The 1827 attempt was engineered by a group of officials and was more limited and less grandiose in scope. It aimed at making the Bank a Government-owned and Government-managed Bank. While the former was to be of a mixed type of State Bank, the latter was to be a full-fledged State Bank. Its primary aim was to restore the financial strength of the Government. The method was to issue notes and conduct limited banking operations on a sound and economical manner so as to enhance the revenue to the Government. It must not, however, be understood that the Committee and Mr. Wedderburn were advocating *inflationism.* It is indeed peculiar that this school of thought did not exist in this country.[19]

AN EXAMINATION OF THE REASONS FOR DISAPPROVING THE SCHEMES.

It now remains to examine either the validity or the inconclusive nature of the arguments trotted out by the authorities which prompted them to give up these schemes. It is indeed a pity that the real necessity for a Bank was not realised either by the promoters of the 1822 Scheme or the Court of Directors. This body was always anxious to have nothing to do with the private banks even though

(19) In contemporary England the Birmingham Economists led by Thomas Attwood advocated this sort of currency reform in 1817. Realising the falling prices to be a result of the shortage of currency he proposed the management of paper money in such a way that it would lead to increased production and employment of labour. This movement failed as a result of the rise in prices after 1848 due to increased production of gold. Similarly, the Bryan campaign was nipped in the bud as a result of the South African Gold discoveries. *See* R. G. Hawtrey—Trade and Credit, pp. 64 to 83.

they might be started by European enterprise. Besides the securing of capital for the needy borrowers to carry on their productive enterprise the introduction of a sound, uniform and generally acceptable currency was realised only by the 1827 Committee of management and Mr. Wedderburn. Prior to this period the general question of paper circulation was never discussed keenly in the trading or commercial circles of Bombay. Since the year 1787[20] down to 1846 the Court of Directors

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(20) In 1787 the Court of Directors disapproved of the connection between the Government and the General Bank at Calcutta but soon afterwards after receiving further advice from Bengal allowed it to proceed *as an experiment*. But no possible inference should be drawn out of this single experiment for the Court of Directors admit that " Before however the first order arrived so little did the Government find it necessary or expedient to employ the paper or funds of the Bank and so small in consequence the Bank deem the advantages of the connection *that on its own mention* it was dissolved and this proved extremely fortunate for in a short time the Bank from the malversation of one of its officers was obliged entirely to discontinue its operations."

See Paragraph 213 of the General Letter (Public Department) of the Court of Directors to the Madras Government—written on 23rd October, 1805 as a reply to the Asiatic Bank's request to allow its notes being considered as cash at the public treasuries. (Italics mine) From this single para. three facts are evident, namely—

(A) Too much must not be made of the relationship that existed between the Government and the General Bank of Calcutta. This was exactly the error which one recent writer committed while writing the history of the Bank. It is indeed strange why the examiners of this thesis should allow material inaccuracies to go unchallenged.

(B) It is clear that the General Bank of Calcutta failed on account of malversation of its officers and this fact must be clearly borne in mind. The statement of Cooke that the General Bank was reorganised in 1791 after the first period of its existence must be considered as inaccurate.

(C) Either the utility of the General Bank to the Government or the utility of Government connection to the Bank must not be overstated. It existed for too brief a period and as the Court of Directors' letter says " the Government did not find it necessary or expedient to employ the paper or the funds of the bank and so small in consequence the Bank deem the advantages of the connection that on its own mention it was dissolved." While such are the facts there is no use of merely believing the statements of the Bank's Officers or its own advertisements in the Calcutta Gazette. If the Bank had really been efficient and if it did outdistance the other rivals why did it not reach the dividend-paying stage?

always laboured under the false notion that by making the notes of private banks acceptable at the public treasuries it was engaged "in giving credit to the currency of these notes". It thought that the eventual bearing of the risk would have to be done by the Company "and until the advantages flowing out of increased pecuniary transactions preponderated, the Court of Directors always shrank from the risk of encouraging private bank-notes without any proper precautionary measures being taken.

Another grave mistake in the reasoning of the proposers of 1822 Scheme was their opinion that the "connection of the Company was essential to the circulation of the notes and was a requisite provision for the successful issue of bank-notes." It is indeed a wonder why they did not realise that the fundamental basis of paper circulation was confidence. The convertibility of notes at all times creates confidence and ensures its free circulation from hand to hand by tacit acquiescence. That confidence is the basis of paper credit was not thoroughly understood by its promoters becomes quite clear by its anxiety to take the Company as a partner. When any society is composed of various races of people, dissimilar in their opinions and social usages, disunited in all their social and political actions and unenlightened in all general matters the fear and distrust engendered in such a community would be fatal obstacles to the circulation of paper money. Until the above political and social circumstances of the society become

improved and are carried on to a high pitch by the Government even the fact of State connection with the banks would be of little avail in promoting or extending the use of paper currency. It has already been related that the promoters of the 1822 Bank did not argue on right principles. They have only dimly perceived the advantages of a Bank operating in their midst. They were obsessed by the idea of the potency of official connection in popularising banking operations.

The framers of the 1827 proposal were more logical in their ideas. Their chief argument was that small notes issued by the Bank would fill the gap arising out of scarcity of gold and silver. That paper currency can secure the needed elasticity for currency was properly understood by them. The Court of Directors were indeed well-versed in the banking principles and while conceding the truth of the above argument, they strove to satisfy their point of view by pursuing a safer course of sending bullion to the mints instead of counting upon the somewhat doubtful beneficial influence of paper currency issued by the private banks. It was quick enough to perceive that "too great an issue of paper would tend to create a scarcity of precious metals thus intensifying or aggravating the very evils and difficulties which it aspires to remove." It was on this ground that the Court of Directors strove to discourage the issuing of paper currency by private banks or at any rate it always stood aloof from them so as not to be involved in any

entanglements, political or otherwise, which would be created by the mismanagement of the private banks.

THE COURT OF DIRECTORS' VIEW OF THE FUNCTIONS OF THE TREASURY NOTE.

It was on the above understanding that the Court of Directors strove to discourage the private banks from attempting to circulate paper-currency as the consequences might tend to be injurious to the community. They might easily displace the legal coin and frustrate the right and duty which attaches to the Government of coining and giving a determinative value to the current medium of payment. So long as the notes are convertible into coins and are easily interchangeable into standard money there would be no harm but the profit-making endeavour on the part of the banks would soon cause an over-issue. A large issue would easily endanger and destroy the interchangeability into coin. Primarily it might be the bank that would suffer for this rashness. Ultimately a few members of the community might also suffer. Hence the community has to be protected from such evil consequences. Thus "unsuitability to the country and the possibility of mismanagement" were the chief planks of its arguments against paper circulation, be it issued by private banks or semi-Government banks.

Another reason why the Court of Directors generally refused to charter the private banks was the

question of their sound management. The Court of Directors were of opinion that the constant shifting of its officers would lead to frequent changes in management. The success of a bank depends on a continuous policy of sound and able management. As this could not be assured the Court of Directors always doubted of the success of the private banks.

It has been suggested that the Court of Directors always strove to restrict the circulation of bank-notes of even the Chartered Presidency Banks for it was afraid that it would not obtain its usual profit from the sale of drafts on the interior treasuries and thus indirectly secure the return of money from the interior to the metropolitan centres by this method. Another reason which its officials in India sometimes openly expressed against the extended use of the bank-note circulation was the necessity to give unfettered scope for the circulation of the Company's own paper. An extended bank-note circulation acceptable at the public offices meant the restricting of the scope of the volume of Treasury notes payable at a fixed date or any other paper of the Government which had no definite date or period of payment attached to it. Mr. H. T. Prinsep's suggestion to issue Treasury notes in preference to bank-notes might have been based on this understanding. Lord William Bentinck refused on this very same ground to accept private bank-notes as cash at the Madras Government Treasury.[21] It is easy to

(21). *See* Para. 232—the General Public Letter from the Court of Directors to the Madras Government, dated 23rd October, 1805.

understand their logic. In the absence of bank-notes, Treasury notes, which were acceptable in payment of Government dues, would have necessarily circulated. At least the discount attached to them might thereby have been removed to a certain extent or would not have been so great as it actually had been in those days. If the demand for remittance and payment for Government dues created additional demand for the Treasury notes it would certainly have raised their value. Coupled with the investment demand on the part of the savers who were willing to lock up their savings in Treasury obligations it could have raised the value of the Treasury notes in the money market. Bank-notes acceptable at public offices meant lesser demand for the Treasury notes. The lowering of their value indirectly by restricting demand was perceived by the officials of the Company.

The Court's Conception of the Treasury Note.

It must, however, be acknowledged that the Court was never guided by this illogical train of thought. It explicitly contradicted the above opinion and disliked the idea of overissuing Treasury notes beyond the legitimate requirements of the Government solely with the view of making them a suitable medium of currency and displacing the bank-notes as a medium of exchange. They always protested against the augmentation of the circulating medium in the shape

of the paper of the Company. While the Court of Directors were, of course, anxious to increase the popularity of the Treasury notes still it must be acknowledged to their credit that they never recommended the violating of the sound canons of public finance in issuing the Treasury notes. They always insisted on the importance of limiting the issue of the Treasury notes to the legitimate financial needs of the Government alone. Government treasury bills or notes were never thought of as a means of deflation or inflation of currency by the Hon'ble the Court of Directors. It is indeed curious to see this controversy raised in the early years of the period of our study.

THE MODERN TREASURY BILL.

At the present day the Treasury Bill is used as a deflationary weapon to deflate the floating balances in the slack season (*i.e.*) to mop up the surplus. This is evidently meant to impart strength to the weakening exchange rate of the Rupee and steady it at a safe level. During the seasonal slackness the rate of exchange tends to lower itself to the gold export point from the country. As a result of the firm money conditions brought about by the sale of the Treasury bills exchange tends to steady itself at or near the gold export point. The purchase of sterling would be given up during this period when the credit-restriction policy is being pursued by the

currency authority. The purchase of sterling tends to release the rupee currency and the attempt to restrict credit would be defeated by a counter-sale of rupees or purchase of sterling along with the sale of the Treasury bills which are chiefly meant for mopping up the surplus. Treasury bills and the purchase of sterling are lawful and recognised expedients adopted by the present-day currency authority to control the money market. It is not germane to this topic to discuss how and under what circumstances these would be successful or fail to achieve their real object. Nor is this the proper place to point out the inferiority of these methods to those credit devices which a Central Bank can easily undertake to control the credit structure or release credit according to the ease or tightness of the same in the money market.

CONCLUSION.

The above discussion makes it clear that the Court of Directors were aware of the principles on which paper circulation would circulate. They actually tolerated the paper circulation of private banks in areas immediately under the seat or at the seat of the Company's Government. They always safely pursued the policy of allowing the wants of society to precede and direct the banking activity and adapt it to suit the real requirements, circumstances and calls of the particular place. They never urged that the

quantity of the treasury bills should be expanded or contracted with reference to the currency needs of the country. The use of the treasury note for the expansion and contraction of currency is indeed repugnant to the best canons of monetary science. It is indeed creditable to record that the Hon'ble the Court of Directors recognised this sound currency ideal and never deviated from this path under pressure of any circumstances.

CHAPTER IV.

SOME SPECIFIC SERVICES OF THE INDIGENOUS BANKERS OF BOMBAY. (1)

What previous writers have stated!—More functions performed by them.—The minting of coins and money exchanging.—The conducting of private lotteries.—Ant Currency.—Suppression of the Native Mints and Native coins.—Their resistance to the introduction of Copper Money.—Reasons for abolishing the Private Lotteries.—What is Ant Currency?—Where and when was it developed?—Why was it developed?—Periods of its History—Its services—When was it abolished?—Historical parallel—Its significant lessons.

WHAT PREVIOUS WRITERS HAVE STATED!

The part that the indigenous bankers played in the undeveloped state of the money market has not been lucidly set forth by any of the existing writers. The making of loans, the discounting of hundies and the providing of remittance facilities alone have drawn the special attention of the research workers. Considerable loans were granted to the princes to carry on their wars and several of them played the role of finance members for the rulers of their petty

(1) A section of this chapter was read before *the Indian Historical Records Commission—Annual meeting held at Gwalior*—1929 *Dec.*

principalities. They were in charge of the Mint if the Native potentate had one such paraphernalia just to make a show of his sovereignty. The financing of the foreign trade was clearly in their hands. The Surat bankers financed the coastal sea-borne trade, between Arabia, the East and South Africa and the Islands of the Archipalego.[2] Some of them financed the East India Company's wars and received meritorious recognition for these services.[3] The

(2) One Virji Vora—a Surat Banker acted as the creditor of the East India Company's factory at Surat. He financed the Pegu Venture to the extent of 10,000 old pagodas carrying interest at the rate of one and one-sixteenth per cent. per month. "This was exclusive of the old debt which the Surat Council had to pay and which amounted to 2,00,000 ryals. *See* Sir W. Foster—English Factories," 1646-1650, p. 89-291-308.

This debt was not repaid even by 1650 by the Surat Council. The interest alone was paid regularly and the Surat Council was put to severe difficulties to pay this heavy sum.—*Ibid*, p. 308.

(3) It is indeed a wonder why the services of the indigenous banking house of T.S.K. Arjunji Nathji of Surat are not taken into consideration by any of the students of banking. He had financial dealings with the East India Company. He financed the trade with the Arab merchants. The Chief of Surat employed this banking house to secure "a firman for the Castle and a sanad for the fleet" from the Imperial ruler of Delhi. A certificate to the effect that this banking house discharged its duties punctually and with great fidelity was given by the chief. In Dec., 1783 the Chief of Surat Mr. R. H. Boddam records the financial help received from the hands of this banking firm. In 1804 when the war with Holkar had to be financed the Bombay Government once again applied to this rich banking house for loan. About thirty-two lakhs of Rupees in coin were paid and the story goes that the carts loaded with the bags extended in long continuous rows from Balaji Chakla to the Nansari Gate. Khilats, medals and grants were presented by the grateful Company for this service. Triwadi Shri Krishnaji was made a Councillor at Calcutta and officially procalimed as the Company's shroff in India. Another loan of three lakhs of rupees was made to the Gaekwar of Baroda on the guarantee of the Company to enable him to pay off his arrears to his Arab Sibbandees. The Village of Shewni was granted by the Gaekwar to this banker for this timely loan,

indigenous bankers had to remit the tribute to the suzerain overlords. This necessitated oftentimes the conversion of one currency into another. Similarly when the revenue was oftentimes collected in kind the necessity to sell this arose. The indigenous banker who was in charge of this had perforce to act as a trader at the same time and sell the product at the most favourable time. These were the facts commented on by the previous writers.

More Functions performed.

The advent of organised banks started in Bombay did not seriously affect them for they did not penetrate into the interior places where the indigenous bankers were conducting their business. Secondly, the language in which they conducted their business must have precluded the possibility of several Indians coming forward to deposit their savings. Thirdly, in the absence of organised attempts to issue sound and sufficiently well-known currency which was universally acceptable to the people, the indigenous bankers busied themselves with this occupation and the very multiplicity of coins gave them full scope to earn profits by charging a small levy for converting the sums paid in one coin into sums of another coin. Lastly, they plied another occupation, namely, the conducting of private lotteries which gave them very lucrative gains. Until it was suppressed by means of legislation the indigenous bankers of the Bombay Presidency carried on these

dubious transactions which inflicted more harm than actual good on society. But the most significant service for which they ought to be praised was the inventing of the money of account or "Ankra Chulun" or the Ant Currency as it was popularly styled in those days. This chapter will be devoted solely to the discussion of the new functions described and in particular the Ant Currency and the successful lessons that we can draw from them

NATIVE MINTS.

Before taking up the subject of the Ant Currency, it remains to examine closely the currency functions performed by the indigenous bankers. Whether they were performed well or ill must be the sole consideration of our study. Up till 1834 there were many varieties of local currencies. The historical reason for this practice has been already explained. One of the duties of the indigenous bankers attached to the Native Courts was to transmit revenues to the Imperial Overlord at Delhi or a far off place and make disbursements on behalf of the Prince,collect revenue, paid in kind and convert into cash and look after the Mint establishment. With the break-up of the Mogul Empire the native potentates also became independent and began to commemorate this event by issuing fresh coins thus making the existing confusion worse confounded. Multiplicity of currency of various kinds and in various stages of debasement meant great difficulty to the revenue

collectors and as soon as the East India Company established full sway over the Maharatta territory the first outstanding benefit they conferred was the suppression of the Native coins and the Native Mints which supplied the different localities with different local currencies. In 1834 a Proclamation was issued from the Territorial Department, Finance —by the Hon'ble the Governor to the following effect:

"Firstly, to prohibit from and after the commencement of the ensuing Fuslee the receipt in payment of the Revenues under this Presidency of any coining being the produce of a Foreign Native Mint still in operation with the single exception until further orders, as regards the Kaira District, of the Syasye Rupee struck at Baroda and further to declare such coins after that date to be no longer legal tender in any place, or public and private transactions within the Bombay territory.

"Secondly, to declare the Bombay Rupee intermediately receivable agreeably to the Government Proclamation of 11th Sep., 1826 at its intrinsic value as compared with the local or Revenue currencies in satisfaction of all Government demands, further to declare the same rupee from and after the commencement of the ensuing Fuslee to be equally with these currencies legal tender in all public and private transactions throughout this Presidency.

"Thirdly, to resolve as the New Mint is fully adequate to supply all deficiencies in the circulating

medium arising either from wear or tear or exportation, that all local mints whether working under the direct authority of the Government or by sufference within the Territories subordinate to this Presidency shall from and after next *Cocoanut Day* [4] be finally suppressed."

25th April, 1834. Bombay Castle.

A storm of protest was raised by the indigenous bankers and as many as 2163 indigenous bankers protested against the closing of the Native Mints for that was "the only occupation that was left to them after the Peishwa's Government was overthrown by the British Government in 1818. Halle Siccas, Chandwad and other coins were minted by them. If the Surat Rupee were to be the sole currency we lose our livelihood." [5]

The Government of Bombay, however, was not moved in any way by these remonstrances and in the wider interests of the general community strove and persisted in its attempt to put an end to the diverse Native Mints. Hence the Chandode, Nasick, Poona and Ahmadnager Mints were closed either for minting copper or silver coins.

A like difficulty was experienced by the Bombay Government when it tried to introduce the new token

(4) "The Cocoanut Day" signified the closing of the Monsoon and the Native sailors, in order to propitiate the Sea, always threw cocoanuts. It meant practically the commencement of Sea voyages on the part of the traders. Even the public offices (the Bank of Bombay included) were usually closed on that day.

(5) *See* their letter dated 31st day May, 1834. Financial Consultation No. 16, 1834.

copper currency in its territory. Greater difficulties had to be encountered in ushering in the representative copper money of the East India Company in the Presidency of Bombay than in the case of Bengal. The Company's officials had to strenuously endeavour for two decades to suppress the Native Copper currency and supplant the Company's copper currency in its stead. Such difficulties were not experienced either in the provinces of Bengal [6] or Madras. These have not been referred to by any other writer. Hence they ought to be recounted in full in this connection.

INTRODUCTION OF COPPER CURRENCY.

The new copper currency was first coined in 1830 and on the advice of the Mint Master, Mr. Farish a Proclamation to that effect was issued in the English and Native Languages introducing the new currency on 29th November, 1830.

The Pie weighing 33 and one-third grains was the minimum denomination of the copper currency and 12 of them were to pass current for one anna.

The next denomination was the "Quarter-anna piece" weighing 100 grains. "The Half-anna piece was to weigh 200 grains."

These were to be issued from the Public Treasuries at the rate of thirty-two Half-anna pieces or 64 Quarter anna pieces for one Silver Rupee and twelve

(6) *See* Paras. 5 to 9—Financial General Letter from the Court of Directors to Bengal—19th August, 1846. This letter speaks of the attempts made to popularise the copper currency in the Districts of Patna and Dinajpore.

pies were to be given for one anna. It was at this rate they were declared legal tender for the amount of a rupee and of its fractional parts in all public and private transactions throughout the Provinces subject to this Presidency.

Koncan was supplied with this new copper currency worth Rs. 30,000. It was suggested that a similar amount was to be given to Broach. The Government carried out these suggestions and issued a supplementary Proclamation to the effect that "old copper currency shall continue until further orders to be current at their established rate of 50 to the rupee and they will at all times be exchangeable for the new copper currency to the extent of the supply in the General Treasury at the rate of 64 Quarter Annas for 50 of the old pice."(7)

The Government strove to supply the requirements of the other districts in this manner but finding that it would be impossible to secure copper currency worth Rs. 2,559,600, which would be required to replace the old copper currency it resolved (*a*) to issue new copper currency to the extent that it was available, (*b*) to discontinue all coinage of copper in any Mints within the range of their territory by suppressing vigilantly any clandestine minting of copper by the Native Mints, (*c*) to issue old pice if the stock of new copper coins were exhausted, (*d*) to reissue

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(7) *See* the Bombay Castle Gazette—24th February—1831.

new copper currency as soon as it was supplied to the Collectors at the mofussil treasuries.

It was only in the transitional stage that the old copper pice were to be received as legal tender at the Treasury and as soon as a proper stock of the new copper coins was supplied a Proclamation was to be issued by the Collectors calling in the old copper coins and exchanging them for the new. The collected copper pice were to be sold to the copper-smiths as it would not pay to remint the old copper. This was the well-conceived plan adopted on 22nd March, 1831.

As this plan had to receive the sanction of experts, it was circulated to them for favour of their suggestions. The Sub-Treasurer, the Financial Secretary of the Territorial Branch, the Accountant General and the Mint Master were the experts who were consulted.

The Sub-Treasurer and the Territorial Secretary approved the plan but suggested an important reservation to the effect that 64 new copper coins would be with reference to the Bombay and the Surat rupees alone and as there "were other revenue rupees roughly a slightly reduced rate depending on their intrinsic value should be adopted so as to check traffic in a new coin in consequence of differences in intrinsic value."

The Accountant General and the Mint Master wanted a uniform rate of 64 to 1 rupee (Bombay). They considered that the 7 per cent. extreme difference

in the intrinsic value of the different rupee currencies need not be considered seriously.

The Bombay Government, however, sided the Sub-Treasurer and the Territorial Secretary and wished the 64 rate to be fixed with reference to the Bombay and Surat rupees alone. The Mint Committee accordingly fixed the exchange as follows.[8]

Rupees.			New Copper currency.
Syasye and Babasye to be exchanged for			58
Ahmedabad and Broach	,,	,, ..	58
Chandore and Chinchore	,,	,, ..	62
Bombay and Surat	,,	,, ..	64

As soon as the other rupees, other than the Company's rupee, were suppressed by 1834 these differential exchange rates were also given up.

Laws are mere laws. However wisely they may be drawn they must first be acceptable to the people before they can be really enforced.[9] The Government had to take certain steps to make the new copper currency acceptable to the people. Secondly, these difficulties became aggravated to a certain extent as the indigenous bankers seeing that they would lose another occupation of their own began to charge commission for converting the new copper currency into rupees and *vice versa*. In order to induce the people to part with their old copper pice and accept

(8) *See* the Circular issued to the Collectors—in June, 1831.

(9) There has been an orgy of child marriages as a sort of wanton defiance of the Sarda Act which prohibits the celebration of a child marriage. The Act is considered as an encroachment on the liberty of the people and it is sad to find that for asserting an academic right the general run of the people are violating the Act (April, 1930).

the new copper coinage the following devices were adopted. As the following Proclamation outlines these measures it is quoted in full.

PROCLAMATION.

The *Right Hon'ble* the Governor-in-Council is pleased to declare that the new copper currency, as announced in the Proclamation dated 28th November, 1830 is the legal copper money of the Town and Island of Bombay and that no other will be received and issued by the public officers of the Government.

For the convenience of the Public the Governor-in-Council has been pleased to cause shroffs to be stationed for two months or until orders at the under-mentioned places for the purpose of exchanging good pice of the old copper currency for the new quarter annas and pies who will give in exchange without any deducton for exchanging:—

64 quarter annas for ..	..	..	50 old pice.
64 ,, ,, ,, ..	..	..	1 Rupee.
3 New pice ,, ,, ..	..	..	1 Quarter anna.

"also when required one rupee (silver) for 64 new quarter annas."

The following places are appointed at which money will be exchanged by the Government shroffs.

The Government Treasury,
The Civil and Marine Pay Office,
The Military Pay Office,
The Collector's Office,
The Custom House in the Fort,
The Custom House—Musjid Bunder,
The Custom House—Mahim.

A premium of 5 per cent. was also given for sums worth not less than Rs. 50 in good pice of the old copper currency which may be brought by individuals to the shroffs employed by the Government. Several other places numbering altogether seventeen were selected for exchange. This was how it was introduced in the Presidency City and similar steps were taken in the Tanah district in 1833. Gradually in the course of four to five years this new copper currency was introduced in the districts of Rutnageree, Poona, Sholapore, Ahmadnager, Dharwar, Khandesh, Surat, Ahmedabad and Kaira. But it failed to become popular even by 1841 in the subordinate collectorates of Poona, Sholapore, Ahmadnager and Khandesh.

The inertia of custom and habit was so great and the indigenous bankers were so tactful that several other measures than the one indicated already had to be enforced to popularise the new copper currency. Copper coins of foreign mints were not allowed to be imported but the situation was not much improved. Secondly, the Calcutta system of licensing shroffs for the issuing of new copper currency was next carried out. Thirdly, to encourage the use of new copper currency it was made compulsory that licences for the sale of liquor, opium, ganja, etc. were to be received in new copper money alone. Fourthly, the help of the Governor-General in India was sought and an Act No. XXII of 1844 was passed

by the Governor-General in India in Council on 28th December.[10]

But things did not assume any improved form even by the year 1852. The new copper currency was almost conspicuous by its absence in the Collectorates of Ahmadnager, Khandesh, Poona, Sholapore and Tanah. It was at this stage when the patience of the Bombay Government was almost exhausted, that it contemplated the passing of penal measures "to seize and destroy old copper currency and declare all other copper money uncurrent except the Company's new copper currency." At the instance of the Mint Committee the Bombay Government contemplated the issuing of the following notification

(10) An Act for regulating the copper coinage of the Mints in the territories of the East India Company.

1. A pie weighing—100 grains Troy.
2. A double-pice—200 grains Troy.
3. A pie of one-twelfth of an anna piece—33 and one-third with such devices as shall be fixed for the same by the Government in Council.

And it is hereby enacted that from and after the passing of this Act the said pice shall be legal tender throughout the Territories of the East India Company for one-sixty fourth of the Company's rupee and the said double-pice for one-thirty two of the Company's rupee and the said pie for one hundred and ninety-two of the Company's rupee.

And it is hereby enacted that all copper coins of the weight specified in Sec. I of this Act which may have been issued since the passing of Act XXI shall be legal tender respectively for the values specified in Sec. II of the Act within the Presy.

Provided always that none of the said copper coins shall be legal tender except for fractions of a rupee.

containing[11] the penal measure or provision. But

(11) The original notification proposed by the Bombay Government runs as follows and the penal provision was stated in the 3rd and 4th clauses.

NOTIFICATION.

Complaints having been frequently made to the Government regarding the currency of the new copper coins and the circulation of the old copper pice called Sewrayee or Wussaie Pice, Shaie Pice, the Dubboo or Alumgir Pice and pice of a similar description in certain districts subject to the Government of Bombay which Pice are not of uniform weight and the current or nominal value of which is liable to constant fluctuation at the discretion of irresponsible and interested persons to the great inconvenience of the public generally and to the loss and annoyance of the poorer classes of the community whose dealings are chiefly in such coins; and the said Pice moreover not having been coined in any British Indian Mint but on the contrary, there is reason to believe, been chiefly surreptitiously coined and imported into the Bombay territories by the subjects of neighbouring states, the Right Hon'ble the Governor-in-Council is pleased to announce the following resolutions in virtue of the authority conveyed in Section V of the Act of 1853.

(1st) Any other copper currency than that coined in the British Indian mints shall not be legal tender in the territories subject to the Government of Bombay after the (say, three months) subsequent to the publication of the rules.

(2nd) The Sewrayee, Shaie, Dubboo and other similar pice shall be exchangeable for Company's copper coin at the Civil Treasuries under the Bombay Presidency in sums not less than (say, one rupee) at the rate of a rupee's worth of the before-mentioned Pice—that is, according to the number per rupee at which such pice were current at the rate of the publication of these rules—for a rupee's worth of the Company's copper currency at the nominal value at which the latter coin is issued.

(3rd) Any person who may subsequent to the notice pass or attempt to pass as coin in the territories subject to the Government of Bombay any copper money not coined in the British Indian Mints shall be liable to a fine double the amount of the money so passed or attempted to be passed and for any subsequent offences to a fine quadruple the value of the money passed or attempted to be passed and further to two day's imprisonment for each rupee's worth besides the confiscation of the money so passed or attempted to be passed.

(4th) Any person who after the publication of these rules shall be convicted of importing or attempting to import for circulation within the territories subject to the Government of Bombay any copper coins not coined in the British Indian Mints exceeding in nominal value one Rupee shall be liable to have such coins confiscated.

the Governor-General-in-Council refused to grant permission to the penal measures and a new notification to the following effect was issued as suggested by the Governor-General-in-Council.

Public Notification.

Firstly, that foreign pice are not legal tender. Secondly, that all Government officers are prohibited from either receiving or disbursing in public transactions other pice than those coined at a Government Mint. Thirdly, that this rule be held to apply to the department of Public works to the Commissariat, the Payments for the dieting of prisoners, to the hire of all persons or labourers and in fact to all copper payments made on account of the Government.

From the accompanying Memorandum drawn up by the Financial Secretary, it will be seen that Public Notifications and instructions to the above effect have from time to time been issued to ensure the arrangements of the above nature being carried out and orders have been given to the officers of accounts to reject all Bills and Abstracts at the foot of which there is not the following certificate.

"I certify that all copper payments which had to be made or received on the above account by myself and my subordinates were effected in the Company's Pice only and that no copper coins of any other description have been either received or paid."

Sixthly, it is unnecessary to remind the Government of Bombay that as the objection with regard to the medium is by mutual consent waived both by creditor and debtor...........the mere desideratum that copper of the old or foreign coinage is not a legal tender loses all force and that at present there is no law to prevent petty traders refusing them as they did in 1835 when the orders relative to copper payments were in full force to give officials in charge of Pensions—*Begariees* employed on public works and persons who in the habit of receiving copper money for wages from Government given at the Market price unless copper currency of the Company is tendered.

Seventhly, the most Noble the Governor-General of India in Council also directs this Government "to have at large towns a sufficient quantity of pice to give in exchange for silver to all applicants who may offer Rs. 5 or more for the purpose."[12]

By persistently advocating the steps outlined in the above notification the new copper currency became slowly popular and in so far as nearly two decades elapsed after the passing of the 1835 Currency Act, which unified the system and declared silver as the generally accepted medium of exchange, one has to accept the statement with some amount of qualification, the oft-repeated phrase that currency unification was achieved by the Act of 1835. Throughout this period 1830—1852 it was the

(12) *See* the Financial Letter from the Secretary of the Government of India to the Secretary of the Government of Bombay—18th July, 1853.

endeavour on the part of the indigenous bankers to retain their profits, which stood in the way of popularising the new copper or silver currency. The circulation of *different coins* of *different weight* issued by the *different mints* meant profit to them. The imposing of the Company's currency, be it copper or silver, as the only legal tender currency meant the depriving of the indigenous bankers of the double source of profits which arose firstly, out of the minting of silver and copper coins and secondly, from the exchanging of these coins.

Conducting Private Lotteries.

The next effective blow to the indigenous bankers was unconsciously dealt at about this time when the right to conduct private lotteries was abolished by legislative measures. The Parsees and the Banias conducted these private lotteries causing demoralisation and spreading crime among the natives. Acting as undertakers of these lotteries the indigenous bankers derived much benefit while the poor unfortunate subscribers lost much money. [13] The Government also secured about 10 per. cent of the profits gained from the private lotteries but on the

(13) One lottery was conducted for Rs. 3,300 and 97 prizes were divided amongst 826 tickets which were sold at Rs. 5 each. The total sum subscribed was Rs. 4,130 and the difference of Rs. 830 was to be paid to the undertaker. This was excluding the deduction of 5 per cent. to be made from the prizes and the total sum to be gained was roughly Rs. 995. . The Government's share was roughly 10 per cent. of the profits.

whole there was great demoralisation which produced pernicious effects on society.

Mr. J. P. Willoughby, who noticed the evil effects of private lotteries wrote to the Government of India about the absolute necessity of immediately closing the private lotteries. He instanced the action of the British Parliament which abolished all private lotteries by Act 42 Geo-3-cap 119 in 1802. This Act laid down a heavy penalty of £500 on all projectors of private lotteries which were considered as nuisances.

The Bombay Government while endorsing the views of the Secretary, Mr. Willoughby forwarded it to the Governor-General-in-Council with a strongly worded note on the absolute necessity of "suppressing the small lotteries under pain of very heavy penalties." Para. 5 of the Secretary's letter runs as follows :—[14]

"Some such Act utterly prohibiting all private lotteries under pain of very heavy penalties is in the opinion of the Government certainly required under this Presidency and I am therefore directed in submitting the subject to the notice of the Government of India to request, should no general enactment against private lotteries be in contemplation, that an Act may be passed making them penal wthin the Presidency of Bombay."

(14) *See* his letter No. 3489 of 1843—General Department, dated 28th Oct.

It was as a result of this request that an Act was passed for the suppression of lotteries, the Act No. V of 1844 which runs as follows:—

"An Act for the suppression of all lotteries not authorised by Government."

Whereas great mischief has been found to result from the existence of lotteries:—

1. It is hereby enacted that in the territories subject to the Government of the East India Company, all lotteries not authorised by Government shall from and after the 31st of March, 1844 be deemed and are hereby declared common and public nuisances and against law.

2. And it is hereby enacted that from and after the day aforesaid no person shall in the said Territories publicly or privately keep any office or place for the purpose of drawing any lottery not authorised by Government or shall knowingly suffer any such lottery to be drawn, in his or her house and any person so offending shall for every such offence, upon consideration before a Justice of the Peace or Magistrate be punished by fine not exceeding Rs. 5000.

3. And it is hereby enacted that from and after the day aforesaid no person shall under any pretence, device or description whatsoever agree to pay any sum to deliver any goods or to do or "forbear doing anything for the benefit of any person, whether with or without consideration, or any event or contingency relative or applicable to the drawing of any

ticket, lot, number or figure in any such lottery or shall publish any proposal for any of the purposes aforesaid, and any person offending in any of the matters mentioned in this section shall for every such offence upon conviction before a Justice of the Peace or Magistrate be punished by fine not exceeding Rs. 1000.

4. And it is hereby enacted that every fine which shall be incurred under the provisions of this Act shall be applied one half to the use of the informer or informers.

A rigorous enforcement of it from 1st April, 1844 deprived the indigenous bankers of another lucrative occupation or ancillary business of theirs. The following petition of Withuldass Bhoychand of Bombay shows how common it was on the part of the indigenous bankers to draw lotteries.

To

The Hon'ble Sir George Arthur Bart,
President and Governor-in-Council,
Bombay.

The humble petition of Withuldass Bhoychand of Bombay, Hindoo Merchant and Banker,
Humbly Sheweth,

That your petitioner has been established in business as banker for the last thirty years; that since the year 1836 he has been in the constant practice drawing lotteries both on money and on tickets of the Bengal and Madras Government lotteries. That

though several lotteries of large sums have been proposed and drawn by him, he has the happiness to state, that in no case has he given dissatisfaction to any, on the contrary, it has ever been his desire (contented with a small profit) to act fairly and with perfect rectitude towards all and your petitioner is happy to add that in this desire he has proved successful; prizes of large number have been fairly and promptly paid to the holders of tickets, without any demur whatever on his part. And your petitioner further sheweth that the truth of his assertions can easily be ascertained from several Gentlemen of the highest respectability at this Presidency, as also from most of the Native Merchants and brokers of Bombay whose names your petitioner can enumerate should your Honour-in-Council require it. Your petitioner further sheweth that in consequence of the Notification published in the Bombay Government Gazette of the 18th January, 1844 your petitioner is precluded from drawing as usual his lotteries under the Presidency without as therein provided the authority of your "Honour-in-Council" and your petitioner therefore passes that your Honour-in-Council taking into consideration the length of time he has been engaged in drawing lotteries, the satisfaction he has given to all and the high character which he bears among all merchants in Bombay will be pleased to grant him the necessary authority to draw his lottery as usual.

Your petitioner begs further to state that he willingly enters into any arrangement your Honour-

in-Council might deem necessary to propose with the view to secure the proper arrangement and management of his lotteries and the payment of prizes and your petitioner will submit to any penalty your Honour-in-Council might deem fit to demand in his failing in any respect to conduct his lotteries in every way to the satisfaction of the Bombay public and with justice and integrity.

And your petitioner is in duty bound shall ever pray.

Bombay, *Sd.* Withuldass Bhoychand.

21st March, 1844.

The Government of Bombay did not pay any heed to this remonstrance and private lotteries were thus abolished in the Presidency of Bombay. Here are some specific services which the indigenous bankers performed and it is indeed a mystery why these are not alluded to by any student of indigenous banking as yet. It could not have been done without any intelligent exploration of the Manuscript Records of the Bombay Government Record Office or the India Record Office in London. Deprived of securing profits by these different dubious methods[15] they had to depend on money-lending

(15) Another practice of the indigenous banking houses of Bombay was to speculate on the price at which the opium would be sold by the Government at the periodical sales of the season. These speculations were somewhat akin to the bargains on the English Stock Exchange and formed an ordinary branch of business of most of the great banking houses in India. The firm of Ramlal of Muttra entered into these wagering transactions and offered that opium would be sold at very high prices at the periodical sales of 1846-1847. Through the medium of respectable

largely. Naturally they were harsh in their dealings with the rural borrowers for their money being utilised once, had to earn the same old substantial level of profits as before.

The indigenous bankers' association existed in Ahmedabad and the *Mahajan* as it was known not only looked after the interests of its members but their actions were always directed by it in the wider interests of the community. The development of the *Ant Currency* a mere nominal unit of account and the closing of it again were due to its activities (16) and as no writer on banking or currency has dealt with the history of the *Ant Currency* it is studied somewhat closely in the following pages.

WHAT IS MEANT BY ANT CURRENCY ?

The *Ant Currency* to give it, (17) its full name the *Ankra Chulun* was developed in the days of scarcity of

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firms at Calcutta he succeeded in defeating his opponents, who aimed at preventing him from paying a high price and brought a chest of opium at £190 6s. Having won his wager he demanded the opposite party to pay. Numerous actions had to be brought in the Courts both of Calcutta and Bombay to recover payment. These matters were carried to the Privy Council which affirmed the opinion of Sir Erskin Perry, the Chief Justice of Bombay who considered that neither by the English nor Hindu law were time bargains illegal. The Indian Legislature had to pass an act making void all agreements whether in speaking, writing or otherwise by way of gaming. Gambling in the opium time bargains had then to be given up. *See* Cases illustrative of Oriental Life and the application of English Law to India decided in the Supreme Court at Bombay, by Sir Erskine Perry—London, 1853.

(16) Since Forbes quotes with approval Dr. John Fryer's condemnation of the indigenous banker it has become fashionable to repeat these remarks *ad nauseam*. But these distinguished and useful services have not been stated frankly by the Western research scholars. *See* Forbes "Oriental Memoirs"—Description of a Banyan, Vol. *III*.

(17) This portion of the Chapter was read before the Historical Records Commission—Sessions held at Gwalior, Dec. 21, 1929.

currency so as to remedy all the evils incidental to the era of a diminished or contracted currency resulting out of a long period of disorder, hoarding, export and stopping of the Mint for want of silver. Exchange dealings were conducted in *Ankra Chulun.* It soon became the preferred standard money for even bills of exchange were drawn payable in *Ankra.* At the time of the final liquidation alone cash was allowed to pass from hand to hand. Definite rates were fixed for either receiving or paying the cash in exchange for the *Ant Currency.* This rate itself was fixed by the indigenous banker's association. Thus dealings in the *Ant Currency* meant transfers in the merchant's books. Evidently the *Ant Currency* was merely nominal currency and was not a circulating general medium of currency. It was merely a book-keeping device to remove the premium on coins. It was a money of account and must not be mistaken for circulating metallic standard money itself, which means the medium in which debts are legally payable.

WHERE WAS IT ORIGINALLY DEVELOPED?

It was the indigenous bankers or Nanawatees of Ahmedabad that initiated this happy stratagem of the *Ant Currency* to supply the place of the usual circulating mechanism—the Ahmedabad Sicca Rupees. Thus it was a substitute for the Ahmedabad Sicca Rupee which was the only standard coin in circulation at that time. It was invented during the days of scarcity of metallic currency. It was

a mere book entry and unit of account which was not minted at any time. It soon, however, developed into a standard of value. The metallic currency (*i.e.*) the Sicca Rupees became convertible into the *Ant* or the nominal *Currency*.

WHEN WAS IT DEVELOPED ?

Prior to 1780 the necessity to hit upon this stratagem was not felt by the indigenous bankers. As soon as a scarcity of cash or metallic currency was felt in that year, the merchants began to feel the shortage of sound currency. As the circulation of debased coins and tampered rupees which were not proof from fraud meant great risk and serious loss all transactions were nominally entered into in the new unit of account, the *Ankra Chulun* or the *Ant Currency*, which was its popular abbreviation.

WHY WAS IT DEVELOPED ?

As stated already, it was a device hit upon to avoid losses or to overcome the inconveniences arising out of the shortage of metallic currency and as the depreciation of the rupee began to increase the rate at which *the Ant* could be expressed in terms of debased currency also began to increase. Thus by 1811, the rate of conversion was about 100 *Ant*—106¼ Sicca Rupees. The *Ant Currency* bore a premium generally ranging from 6¼ per cent. to something higher. Sometimes the Sicca Rupees fell so low as to make 110 Ahmedabad Sicca Rupees equal to 100 *Ant Currency*. The premium on coins which it

sought to remove was after all not accomplished for it only happened to reappear as premium on *Ant Currency.*

Two Periods of its History.

From 1780 to 1826 the year of its abolition, the history of the *Ant* can be divided into two broad divisions.[18] Firstly, from 1780 to 1811 the *Ant* bore a premium which was never higher than 6¼ per cent. The *Ant* was first approximated to the true standard value of the Ahmedabad Sicca Rupees. But with the actual debasement of the Ahmedabad Sicca Rupee the *Ant* soon began to acquire a premium as stated in terms of Sicca Rupees.

In 1815 the commercial causes soon began to make their presence felt. The pressure for currency became keen in the days of cotton financing and in the busy season the *Ant* began to fluctuate and had no steady value. Thus it failed to be a steady measure of value defeating the main purpose for which it was invented. In the second period the *Ant* represented the Halle Sicca Rupees and the depreciation of metallic currency was another cause still operating as in the first era, in determining the premium attached to the *Ant Currency.* It continued to exist even after the metallic currency was reformed and the Ahmedabad Mint began to issue sound silver rupee coins. Blind custom and unconscious usage were responsible for its widespread use.

(18) *See* Bruce's Minute on Ant Currency, Public Proceedings—Vol. 30, 1826, pp. 19 to 57.

As soon as the Ahmedabad Mint began to issue sufficient sound rupee coins whose integrity was of an unquestionable character, the necessity for the *Ant Currency* was no longer felt. In addition to the standard coin which was being supplied in requisite quantity by the Ahmedabad Mint to suit the requirements of the people, the *Ant Currency* existed as a unit of account. But the necessity of a separate unit of account was no longer felt and even before the Government contemplated the enacting of measures to put an end to this practice the Ahmedabad Nanawatees voluntarily abolished the *Ant Currency* at a meeting held on 16th December, 1825. The original letter written in vernacular was signed by about 74 Signatures of the Nanawatees and an English Translation of the same made by the Acting Judge of Ahmedabad on 24th December, 1825 is also carefully preserved in the Government Record Office at Bombay.

On *Sumbut* 1882, *Mapur Sood*, Friday—we, the undersigned Nanawatees, Bankers of the Mahajan, do make this agreement, the reason of our writing in this that in Ahmedabad the *Ankra Chulun* or what is usually denominated *Ant* is carried on but the exchange (butao) on ready cash has greatly diminished and it appears to us that the exchange (butao) will still diminish and we have therefore all agreed to fix a certain rate for the *Ankra* of exchange (butao) and to adopt a new system which is to be carried on in which no dealings are to be made in

Ankra. All dealings are to be carried on in the new system adopted by us that is in ready cash and up to this day whatever dealings have been made in *Ankra* the Mahajan has fixed a certain rate by which they must be given and received as follows:—

1. In all dealings in *Ankra* ready Siccas are to be given and received and we have fixed the rate at 75 per cent. for debit and credit.

2 In receiving Siccas old and new will be taken with an exception of those that are bad, those that have been rubbed, those that have been drilled, those with bits taken off them or those with bits of lead affixed——all such will not be received with the exception of those all will be taken and given.

3. All hoondies in *Ant* received from other parties at Ahmedabad will be paid at the rate fixed with exchange at 6⅓ per cent. and from *Sambut* 1883, *Kartic Sood* 1st, all hoondies received will be paid in ready Siccas, if the hoondies are written in *Ant* the amount therein mentioned will also be paid in Siccas as above mentioned.

4. If there are any hoondies in ready Siccas in merchant houses that have become due up to *Sumbut* 1882, *Magseer Sood* 6th, Thursday, they are to be discharged and received at the old rate of the day on which they became due and those that fell due from *7th Magseer Sood*, Friday, the amount must be paid and received in Siccas...........

.........If any person does not comply with the above requirements he will be excluded from the Mahajan for two months and after the expiration of that period the *Mahajan* will assemble and a fine will be imposed on such person of 25½ maunds of grams for the benefit of the *Khore Dhore* (a hospital for the sick and maimed animals) after which he will be allowed to join the Mahajan.

74 Signatures follow.

Its services.

Firstly, throughout its earlier period it served as a steady and unvariable unit of account. Secondly, it saved the merchants from heavy loss to which they would have been subjected, if they agreed to tolerate the circulation of drilled, rubbed, debased or chopped Sicca Rupees. Thirdly, it systematised the channels of trade by supplying a reliable and steady measure of value. "Habit becomes second nature" says the well-known adage and the custom became so ingrained in the minds of the people with the result that it persisted even though the circumstances leading to its existence were no longer present. It speaks eloquently about the slowness and difficulties of changes which our conservatively minded agriculturists, traders and merchants generally display in matters of currency and banking.

So long as it was of steady value it conferred benefit on the merchants but as soon as it began to fluctuate in value, serious evils began to flow in its train.

The fluctuations of *Ant* affected the pecuniary transactions of the tributaries in Kathiawar who undertook to pay their tribute in the *Ant Currency.* As soon as it began to fluctuate in value the States entered into a contract to pay their tribute at an exchange of 15 per cent. premium. The Guicowar of Baroda was similarly affected and that was perhaps one of the reasons why he abolished the *Ant Currency* in his territories.

When was it abolished ?

The Guicowar abolished it in 1805-1806 so far as dealings in his territories were concerned. He prohibited all dealings except in current Sicca Rupees and ordered all bills which might be drawn afterwards on Ahmedabad in the *Ant* to be paid at the rate of 6¼ per cent. in favour of the *Ant.*

This reform proved futile for with the stopping of the Mint in 1818, the *Ant Currency* was once more revived and the fluctuating value attached to it soon disqualified it from acting as a satisfactory measure or unit of account. On 20th April, 1818 several traders of the City of Ahmedabad petitioned to the Collector to abolish this nominal currency.[19] No action was taken until 24th December when the Acting Judge of Ahmedabad issued a proclamation that "gambling carried on by means of *Ant Currency*

(19) *See* the Financial Letters from the Government of Bombay to the Court of Directors, 1824-1825.

should be stopped.'' On 16th December, 1825 the *Ant Currency* was abolished by the joint voluntary action of the indigenous bankers themselves.

Historical Parallel.

Just as the "Amsterdam bank money or currency" reduced order out of chaos by its book credit and dealings so also the *Ant Currency* performed like or similar services and permitted the traders and merchants to continue trade dealings without any embarassment. The Amsterdam Bank was founded in 1609 with the purpose of circulating money which would have steady value and save the people of Amsterdam from the loss arising out of defective currency in circulation. It was originally meant to remove the premium on coins but as soon as it began to conduct banking business in addition to its money changing functions the bank money began to bear premium when stated in terms of ordinary money.[20] The people found fault with the management of the bank and sought to prevent it from undertaking deposits.

Its Significant Lessons.

The sense of *esprit de corps* existing amongst the indigenous bankers is the most important thing, that strikes the reader. The indigenous Bankers

(20) *See* Dr. N. G. Pierson,—Principles—Vol. I, page 488-490. Adam Smith —Wealth of Nations—Bannan's edition I, pp. 443-452 and *H. See* Modern Capitalism (English Translation, 1928, p. 63-66).

Association was practically all powerful and no individual banker could dare to defy its dictates. A fine of 25 and ¼ maunds of gram was levied for the benefit of the occupants of the sick and maimed animals stationed in the *Khore Dhore.* India sadly requires a revival of this spirit on their part to forsake the time-worn and useless habits. Monetary reform cannot succeed in this country until the indigenous bankers display real initiative. Acting as the bill-brokers and acceptance houses in our money market their sole duty is to create an open discount market. A renaissance of money transactions is indeed difficult if the indigenous bankers refuse to reform their ways. Narrowness and conservatism would be fatal obstacles to real progress and preeminence.

Steadiness in the value of the unit of account is indispensable or else it would fail to perform satisfactorily the functions of money. The absolute duty of the currency authority should be to prevent abnormal changes in the purchasing power of money. The early history of the *Ant Currency* up to 1811 proves the possibility of a mere paper standard without any reference to specie backing. Like the *Ant Currency* the unit of account may be merely a well-regulated non-metallic standard issued by the currency authority. Just as custom and habit induced the people to use the *Ant Currency* as a unit of account, even though sound metallic currency was available so also the currency authority of managed

paper standard can issue notes and can declare them legal tender. It makes us possible to realise the true significance of a unit of account which is nothing else than one way of stating purchasing power over commodities.

Finally, Indian Economists need not really depend on the hackneyed examples of the British "guinea" and the American "one dollar piece" as instances of units of account which are not and need not essentially be coined. The Indian example of "the *Ant Currency*" or "the current rupee" or the "cash" would provide a good illustration of the fact that a mere nominal unit of account can serve as a standard of value though it might not be expressed in any definitely real moveable object or shape. These indigenous bankers have made it possible for us to realise an organisation of exchange which can operate without any hitch almost entirely without the use of metallic money and this organisation can be made to operate without reference to any standard of metallic money in the ordinary sense of the term.

CHAPTER V.

THE EARLY HISTORY OF THE BANK OF BOMBAY.

No chronicling of the early History of the Bank of Bombay.—Causes leading to the establishment of the Bank.—Opposition of the mercantile houses.—The Government's refusal to listen to mercantile opinion.—Chartered Bank.—Civilian and Military servants.—Subscription to shares.—Actual operation and names of the first set of Directors.—Its early procedure modelled on the Bank of Bengal.—Office Establishment.—Rules governing the receipt of the Bank-note.—Specimen of the Bank-note.—How was it received in the early stages ?—Forgery of Bank-notes.—Note-issue till 1852.—Its steady increase during 1850 to 1860.—Bank post-bills.—Guard.—Deposits—Lottery deposits—Rules and Nature of the Business.—Investments.—Attempts to check over-investment in Government Securities.—Director's Report of 1851.—Government's Refusal.—Discussion of the Government reasons for refusal.—Attempt to open branches.—Relations with the Treasury.—Monetary pressure in 1845.—Relations with the Bank of Bengal.—Bank-returns.—Specimen of the Monthly return.—Bye-laws.—The 1862 Act.—The 1863 to 1866 period.—The Causes for the Bank's failure.—Commission's findings in this respect.

NO CHRONICLING OF THE EARLY HISTORY OF THE BANK OF BOMBAY.

Great credit is due to Mr. G. P. Symes Scutt for chronicling the main events of the early history of the Bank of Bengal with some degree of accuracy and completeness. But there is unfortunately no detailed statement of the history of the Presidency Bank of Bombay. A pamphlet entitled "the late Government Bank of Bombay" which an anonymous writer wrote in 1868 devotes great attention to the fortunes of the Bank in the second decade of the second half of the nineteenth century. Thus the early history of the Bank from 1840 to 1857, which is considered uneventful by the present writers, is often passed over in silence and the research scholars have failed to draw successful lessons from the events of this period. While all unessential and prolixsome details are omitted, the most important events are referred to. Throughout the narrative the object has been to secure lessons from its early history which would be of great service to the existing banking institutions.

CAUSES LEADING TO THE ESTABLISHMENT OF THE BANK.

The conditions leading to the establishment of the Bank of Bombay are not generally stated in detail.(1) Firstly, there was the commercial necessity.

(1) *See* the Report of the Meeting held at the office of Messrs. Skinner & Co., 26th Dec., 1836. A copy of the printed report issued by the Provisional Committee of share-holders is carefully preserved in the Government Record office.

The trade of the City increased and was almost "of the same magnitude as that of Calcutta." The starting of a bank would still further increase the commerce of the City by extending discounting facilities. The moneyed interests of the City monopolised the commerce of the place and lent on all manners of securities, good, bad, and indifferent and even such securities of doubtful value as Respondentia were accepted as collateral for loans. The other object was the breaking of the monopoly of this moneyed interest and the rendering unnecessary of the use of metallic currency (silver Rupees) for making large payments which meant loss of time and heavy loss of money, incurred as shroffage, custody and transport of the same. The recent withdrawal of the privilege of making deposits in the Treasury, already alluded to necessitated the opening of a Bank which would render similar service of keeping deposits in safe custody and grant them facilities for making transfers in the same manner as the Treasury did. The facilitating and rendering more secure the large-scale financial transactions and remittances of the people were the sole motives of the promoters of the Bank. Thus the commercial needs of the city preceded practically the creation of the Bank. But other circumstances also aided the people of Bombay and made the Government of Bombay fall in with the wishes of the founders of the scheme. The sister Presidencies of Bengal as well as Madras had successful banks operating in their midst and even at Agra,

the local bank was conducting business successfully. The people of Bombay obtained information about the practices of these institutions and they considered that circumstances were ripe enough to permit the creation of a Bank in Bombay. Another cogent reason which had some weight and turned the scale practically in the formation of a Bank was the anxiety felt by the people of the locality and shared to some extent by the Government to prevent foreign banks started either by the capitalists of London or Calcutta from obtaining the control and superintendence of the monetary transactions of the Island and conducting them in a manner prejudicial to the genuine interests of the people of the locality. It was more or less a defensive move on their part which they had to undertake as soon as they heard of the plan of the "East India Bank" organised in 1836. It tended to focus Bombay public opinion on the problems of banking and currency.

Opposition of the Mercantile Houses.

But the leading mercantile houses began to openly avow their hostility to the above scheme. Anxious to defeat the proposal, they promptly wrote to the Government agreeing to lodge their money in the Treasury for Government promissory notes payable on demand. (2) They, also, hinted the possibility of private capital being invested in the treasury notes.

(2) *See* their Letter, dated 24th Dec., 1836--preserved in the Financial Department—Messrs. Forbes & Co., Remington & Co. and Jameshedjee Jeejeebhoy & Co. and others signed the above memorial.

They tried to scare away the Government by repeating the imaginary difficulties that would have to be encountered in the circulation "of paper money and prophesied that great evils would flow out of the circulation of bank-notes." They quoted exultingly "the failures of banks set up by the Agency Houses at Calcutta" and wanted the Government not to inflict such tragic circumstances on the people of Bombay. But these misguided efforts proved a failure. The wants of society preceded practically the creation of a Bank and the conditions of the City were so ripe that all attempts at postponing the establishment of the Bank proved futile.

The Government's refusal to listen to Mercantile Opinion.

But the Bombay Government, which experienced great difficulty in issuing treasury notes naturally did not pay much heed to the false and interested reasoning on the part of the Bombay merchant houses. Not only did they remember their own sad experience in the matter of the treasury notes issued in 1825 and 1827 [3] but they were convinced that very little capital would be invested by the private capitalists. Realising the success of the Chartered Bank of Bengal it naturally felt that there

(3) In 1825 Treasury notes were issued bearing interest at 6 and half per cent. rate of interest and in 1827 at 5 per cent. per diem. As the General Treasury was always possessing low cash balances it found great trouble in arranging for the repayment of the Treasury notes even at the end of twelve months for which period they were floated.

was not much real danger in the circulation of bank-notes provided the Charter regulations were followed both in letter as well as in spirit. Being convinced of the possibility of successfully conducting the banking institution, the Bombay Government turned a deaf ear to the merchants' memorial and supported wholeheartedly the arrangements for creating a chartered bank on the model of the Bank of Bengal for which the Provisional Committee of shareholders endeavoured to secure sanction from the Supreme Government of India.

CHARTERED BANK.

The proposed Charter of the Bank of Bombay was sent to the Supreme Government for confirmation and Mr. R. Grant who was the Secretary to the Government of India promptly took exception to the suggestion of granting the power to open branches which privilege was not originally granted to the Bank of Bengal at the time of its initial starting as a Chartered Bank in 1809.[4]

Though the Bank was first planned in 1837,[5] the Bank could not secure its final charter till 1840 and as the causes leading to this delay have been pointed out already by other writers, much need not

(4) *See* para. 49 of his Minute, dated 14th January, 1837. But as this privilege was granted to the Bank of Bengal in a subsequent charter it was allowed to exist in the charter of the Bank of Bombay.

(5) *To quote the exact date the Provisional Committee of shareholders was formed at a meeting held on 26th Dec., 1836 at the office of Messrs. Skinner & Co,*

be stated of the same. Being a Chartered [6] Bank all people including the Company's servants, judges, military men, and other civilians were permitted to become shareholders and possess the Chartered Bank Stock. There was practically great rush to own the Bank Stock as the Bank by virtue of its Government connection, ownership of capital and control over its proceedings through its nominated directors, was assured of success from the very threshhold of its career. After a good deal of higgling which caused much heart-burning in the minds of the people who were disappointed and disqualified as shareholders, the rearrangement of shares was completed and by 1840 the Chartered Bank of Bombay commenced its actual operations with an actual capital of Rupees

(6) Doubts were expressed in 1834 as regards the eligibility of the Company's servants as bank shareholders. The Union Bank of Calcutta promptly wrote to the Imperial Government to decide the matter and the Financial Notification, dated 22nd Sep., 1834, decided the issue and prohibited the Company's servants from holding shares in private Banks. The Hon'ble the Court of Directors approved this step in their Letter No. 9 of 1837, dated 10th May, 1837—written to the Governor-General-*in-Council*. *So the Union Bank must be considered as the first Joint-Stock Bank of indigenous non-official enterprise started by the private capitalists OF THE TIME.*

By virtue of Act 47 George 3rd., 68—power was granted to the Governments of Bombay, Bengal and Fort St. George to incorporate Banks in their territories. It was also decided that all the Company's servants and Judges of the Courts of Justices in India might subscribe to a chartered bank. It was also decided that the Company's servants might be elected as directors of the Bank notwithstanding the Act of 33rd Geo. 3rd. But it was declared at the same time that no judge of any Court of Justice established by His Majesty's Charter was capable of holding office of the director of any Bank.

See Public General Letter from the Government of India to the Court—23rd July, 1805. *See* para. 182.

Fifty-two lakhs and Twenty-five thousand divided into 5225 shares of which the Government of Bombay held three hundred.(7) The first Government directors were the Accountant-General, Secretary to the Government in the Financial Department and W. R. Morris Esq.(8) The following were the first six elected directors elected in conformity(9) with the provision of Section XII, Act XII of 1840.

The First Batch of Directors.

Name of the Directors	No. of votes polled in favour.
R. G Gordon	222 votes.
James Wright	217 „
Lieutenant-Col. G. Moore	216 „
F. M. Davidson	216 „
Framjee Cowasjee	204 „
Captain J. Swanson	132 „

The first office was in Ramport Row in the building No. 23 belonging to Jahangeer Naseerwanjee Wadeya. (10) The Bank commenced actual operations on Wednesday, 18th April, 1840.

Dependence on the Bank of Bengal.

Since C. N. Cooke and J. B. Brunyate wrote the lines that the constitution of the Directorate was similar to that of the Bank of Bengal and that the

(7) A large number of the original shareholders were Parsees and natives of India, a thing which did not exist in the case of the other sister Presidency Banks. But in spite of this, only one Indian director was elected.

(8) *See* the Bombay Castle Gazette—11th March, 1840.

(9) *Ibid*—16th March, 1840.

(10) *See* the Bombay Castle Gazette—30th March, 1840,

same kind of business was permitted by the Charter, it has become the habitual practice of other writers to repeat this self-same information. But no writer has proved, how from the very inception of the Bank, its operations were very closely patterned on that of the Bank of Bengal. It was not the mere similarity of the Charter provisions that is of any importance. In the method of issuing bank-notes and bank post-bills and receiving the same at the Treasury, in the details of its routine management, office expenses and establishment charges and in the way of securing additional customers to the Bank so as to become the sole medium of nearly all the receipts and payments on behalf of the Government as well as the people, the Bank of Bombay was guided solely by the experience of the older-established institution. Whenever any new measure had to be undertaken the Secretary of the Bank of Bombay usually approached the Bombay Government with a request to elicit the practice of the Bank of Bengal under that heading so that it might be guided by its advice.

Office Establishment.

For instance, the Bank of Bombay wanted to know the exact strength of the establishment of the Bank of Bengal at its first formation in April, 1806 and the nature of the same in 1839, so as to determine for itself the total expenditure it can prudently incur in the matter of its own establishment. As these details are not evidently mentioned by any other

writer it might be of some use to point out how economically the staff was arranged from the very outset and the sin of top-heavy management, which modern banks generally commit, was very carefully avoided by the Presidency Banks of Bengal and Bombay.

Memorandum of the establishment of the Bank of Bengal at its first formation in April, 1806.

	Sicca Rupees.
Salary of the Secretary and Treasurer ..	800
Rent of a House	300
Salary of a Book-keeper	300
One Portuguese Writer	100
Three Natives	100
Khazanchee or Cash-keeper	200
Poddars	120
Shroffs and Purkeyers	80
Bengal writers	80
Accountants	80
Coolies and Darwans	20
Peons	20
Contingencies (expenses of notes, stationery, candles, etc.)	200
Total Sicca Rs. per mensem	2,500

It was inevitable that with the gradual growth of business the staff had to be increased to cope with the increasing volume of business and render expeditious service to the customers of the bank. The expenses were almost quadrupled and the increasing necessity for a carefully planned division of labour forced the bank to introduce different departments and systematise the nature of the work which these

had to transact. The following was the establishment of the Bank of Bengal in March, 1839.

	Company's Rupees.
Secretary and Treasurer	1,600
Deputy Secretary	1,000
Accountant	600
Assistant	400
	Co.'s 3,600 Rupees.

There were twenty-three assistants at a graded scale ranging from Rs. 80 each to Rs. 13 and the total expenses amounted to .. .. .. Rs.	846	10	8
The salaries of the duftries amounted to .. ,,	37	1	0
One Pressman or Printer .. .. ,,	10	10	8
The salary of peons .. .. .. ,,	31	5	4
	925	11	8
The Native Accountant's Office—			
One Head Accountant .. .. .. ,,	250	0	0
One Deputy ,, ... ,,	106	10	8
There were sixteen assistants .. .. ,,	451	5	4
Two duftries .. .. .. ,,	11	0	0
Rs.	819	0	0
The Cash Office—			
One Khazanchee .. .. .. ,,	1,000	0	0
One Deputy .. .. .. ,,	106	10	8
38 Native Assistants .. .. .. ,,	1,165	9	7
Rs.	2,272	4	3
Besides these there were 18 poddars, 2 nagree moonshies, one zamadar, 88 rojibassies, one duftry, one farash, six coolies, two mahturs, one bhisty who were drawing roughly .. ,,	2,610	15	6
The authorised Total.. .. ,,	10,227	15	5
Contingencies, Stationery, etc. .. .. ,,	900	0	0
Total per mensem—Company's Rupees	1,127	15	5

Having learnt that "the Bank of Bengal became the sole medium of nearly all the receipts and payments made on account of Government",[11] it set about an enquiry to ascertain by what gradual steps this cherished consummation could be secured by the Bank of Bengal.[12] It found out that the Bank of Bengal could secure Government Money as deposit as the "Officers-in-charge of public money in Bengal were asked to keep accounts with the Bank and send unavoidable balances as deposits to the Bank." Since 26th June, 1828 on which date the said orders were passed several Government officers kept such accounts sending to the Bank, treasury orders and drawing against them. The Bank of Bombay took the cue from this necessary hint[13] and made the Government of Bombay issue similar orders to the Military Paymaster to open accounts with the Bank[14] of Bombay. As it thus became the custodian of the Government balance it must have succeeded in conveying a sense of real security to the public.

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(11) *See* para. 3—Letter of Mr. G. Ashburner—Secretary of the Provisional Committee of shareholders to the Secretary of the Government of Bombay, dated 18th Jany., 1839.

(12) *See* the Letter of Secretary, G. W. Bushby to the Chief Secretary of the Government of Bombay, dated 15th July, 1840.

(13) The acting Secretary of the Bank requests the Governor-in-Council to issue orders that all officers of the Government may be empowered to open accounts with the Bank of Bombay. *See* the Financial Despatches—Consultation. No. 21 of 1840.

(14) *See* the Financial Notification issued on 20th August, 1840.

Rules governing the Receipt of the Bank-Note.

Similarly, in the matter of the bank-notes and bank post-bills, the procedure adopted by the Bank of Bengal and the practical regulations governing their receipt at the Treasury were ascertained before similar regulations were out-lined in Bombay. As the notes of the Bank of Bengal were received at all the treasuries in the Lower Provinces and Bengal with the exception of Bihar where the Furackabad Rupee was in circulation the Hon'ble the Governor-in-Council issued a notification [15] to the effect that "all collectors, paymasters, other officers of Government receive as cash the notes of the Bank of Bombay when tendered in payment of sums due to the Government." On 14th May, 1840 it was ordered "that bank-notes may be issued to those willing to receive them."[16] The following circular letter was issued to the Collector by the Bombay Government informing them of the way in which they have to dispose of the Bank-notes received in payment of the public revenues.

(*a*) All bank-notes[17] received by you in payment of sums due to the Government should be carefully kept in an iron or tin box to be placed within the Government treasure chest or any other equally secure place.

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(15) *See* the Bombay Castle Gazette—18th April, 1840.

(16) Letter No. 327 of 1840. *See* the Financial Consultation No. 21 of 1840.

(17) I wonder why the party from whom the note has been received has not been asked to endorse the note at the back. That would have afforded triple security to the Treasury.

(*b*) A register according to the annexed form should be kept in your office shewing the number, date, and volumes of all Bombay bank-notes received by you on account of the Government. The daily entries in the Register should be countersigned by you. The register should be kept in a place distinct from the notes in order that a double security may exist.

(*c*) When bank-notes have accumulated to the amount of Rs. 5000 or beyond the quantity required for the ordinary expenditure of the Treasury they should be transmitted to the Sub-Treasurer or to such other officer at the Presidency as the Accountant General may appoint. Each note should be first cut in half—the halves being transmitted by succeeding dawks. In order that the contents of the packets containing such notes may not be apparent and that they may be preserved from damp, they should be covered with strong paper during the fair season and with wax cloth during the monsoon.

(*d*) You should forward to the Accountant General on the 1st of each month a statement showing the number, date, and amount of the notes in hand on the first of the preceding month and of those received in your treasury during that month and the way in which they have been disposed of. [18]

(18) *See* the Financial Consultation No. 24 May, 1840.

A Register of the Bank-Notes with Specimen Entries.

No. of Notes.	Date of Note.	Amount of Note.	From whom received.	Date of receipt.	Collector's signatures.	How disposed of.	Date of disposal.	Collector's Sig.
572	1st of April.	Rs. 5000	A.B.	1840-10 April.	X.Y.Z...	Remitted to General Try.	1st half 2nd ,,	X.Y.Z.

Evidently the Bank of Bombay was never asked to deposit general security[19] for its notes so that the Government might not be the loser in any way by holding the bank-notes. Besides, they were freely received at all the treasuries in the Bombay Presidency.[20] This must have led to the popularity of the bank-notes and a free circulation of them in the interior.

A Specimen Bank-Note.

The Bank-notes were struck from an English Plate in England. The following specimen makes the reader familiar with the details of its superscription.

Bank of Bombay,
15th April, 1843

I promise to pay the Bearer on Demand Twenty Rupees value received............

(19) The Bank of Bengal had to deposit 20 lakhs of Rupees as security for its notes. This was given up only in 1832. *See* the Financial General Letter from Europe to Bengal, No. 2 of 1832.

(20) In the case of the Bank notes of the Bank of Bengal a limit of Rs. 50 lakhs was fixed and the G. Treasury could not hold more than this limit. *See* para. 19—Territorial Finance Department—Letter from the Court of Directors to the Bengal Government. No 13 of 1834, dated 12th March, 1834.

N 4178............Bombay............No. 4178.........
Entd. William Smyttam   For the Bank of Bombay
Acctt.   (sd.) J. Stuart.
Twenty Rupees   Secretary and Treasurer...

Though the original Bank-notes issued by the Earlier European Banks were *order notes* and generally contained the *name of the first payee* the first notes of the Bank of Bombay were bearer notes and the specimen of the bank-note, which has been quoted already, makes it clear.

HOW WERE THE NOTES RECEIVED IN ITS EARLY STAGES ?

Although the notes of the Bank of Bombay were received as cash at the Treasury still a slight discount was attached to them in the bazar when they were converted into specie. So a notification was issued promptly that "cash can always be obtained at the Bank's office for the Bombay Bank-notes free of charge" and vernacular translations of the same were published in the Bombay Castle Gazette to the same effect. Guzrattee, Maharattee, and Parsee translations were also issued and circulated in the bazar.

As soon as the Western Bank of India was started in 1843 keen rivalry ensued as the bank-notes of the Western Bank of India were not received as cash at the Government Treasury. [21]

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(21) A note of the Bank of Western India for Rs. 5,000 was refused by the cashier to be received as cash into the General Treasury—on 5th July, 1844, the

This rivalry was manifested in a somewhat peculiar way. It was usual for rival banks to create unexpected runs by presenting a large amount of notes for ready encashment. But the Western Bank of India exhibited its jealousy somewhat in the following manner. The Bank of Western India began to annoy the Bank of Bombay by marking on the face of all the notes the words "received the Bank of Western India" in a bold style obliterating the original printed letters on the note itself. The Bank of Bombay appealed promptly to the Supreme Government and pleaded for legislative protection against the "wanton annoyance" which resulted in limiting the circulation of such marked notes. In the plenitude of his mercy, the Governor-General pitied the situation of the Bank of Bombay but refused to take any special legal action against this "wanton annoyance" and hoped that "by a reissuing of these notes the confidence of the public would be sustained and the rival bank would gain nothing by this wanton annoyance." [22]

Forgery of the Bank-Notes.

Owing to the discovery of the forged notes in the bazar there was a regular run on the Bank of Bombay

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Governor-General-in-Council approved the decision of the Bombay Government. In pursuance of the above instructions received from the Government of India the Hon'ble the Governor-in-Council is pleased to direct that on no account whatever shall any bank-notes except those of the Bombay Bank be received at any Government Treasury under this Presidency. *See* the Notification of the Government Secy.

(22) *See* the Financial Consultation No. 38, 1844.

for cash in 1848. On 8th November, 1848 about two and half lakhs were withdrawn. On 9th November about eleven lakhs were similarly withdrawn. The Government Directors soon took a vigilant attitude and promptly brought the situation to the notice of the Government of [23] Bombay. The Bombay Government stood convinced of the absolute necessity to help the Bank and wrote strongly to the Government of India as well as the Hon'ble the Court of Directors [24] of its firm resolve to help the Bank even against its previous express injunctions against such help to the Bank. [25]

Fortunately the run subsided and no actual help was rendered by the Government. But the Government never relaxed its duties all throughout this period and carefully scrutinised the Bank's cash position at the end of each day. Confidence was thus restored by this vigilant attitude on the part of the Government and its readiness to help the Bank. The run actually ceased on the 16th instant.

Except during these unfortunate years 1848, 1849 and 1850, the notes of the Bank were generally

(23) *See* the Financial Dept. Letter from the Govt. Directors to W. Courtanay Esq., Secy. to the Govt. of Bombay.

(24) *See* the Letter from the Court to the Bombay Govt. Letter No. 20, written on 23rd Dec., 1845 and *see* also letter No. 13, dated 22 Sep. 1846.

(25) *See* the letter of the Bombay Government to the Court of Directors, dated 30th Nov., 1848. In a crisis against which no foresight and no adherence to right principles of management could have saved the Bank the Government is bound to help the Bank. "We cannot think were the Bank in difficulty from such a cause and unable to realise its securities and call up outstanding loans in time to meet the demands upon it we should do no wrong in coming to its help."

in great demand in the interior. Several times the Provincial Treasuries (26) had to make requisitions for the bank-notes doubtless to satisfy the requirements of the business men. The following tabular statement gives the reader the highest and lowest amount of notes in circulation in each year from the commencement of the Bank in 1840 to the end of 1852. (27)

A Tabular Statement of the Note-issue of the Bank of Bombay.

Year.	Date.	Highest amount in Circulation.	Date.	Lowest amount in Circulation.
		Rs.		Rs.
1840 ..	Dec. 11th ..	23,29,455	April 15th ..	11,09,335
1841 ..	Sep. 11th ..	34,29,810	May 29th ..	12,28,510
1842 ..	Dec. 30th ..	33,81,576	June 19th ..	30,12,595
1843 ..	Dec. 4th ..	63,54,330	April 17th ..	30, 94,335
1844 ..	Jan. 30th ..	59,92,710	Oct. 20th ..	30, 42,825
1845 ..	Oct. 11th ..	49,55,410	August 15th ..	28,84,135
1846 ..	Oct. 17th ..	47,50,985	June 27th ..	28,05,300
1847 ..	Nov. 21st ..	51,77,050	Dec. 26th ..	20,61,850
1848 ..	Aug. 29th ..	58,82,700	Jan. 6th ..	24,34,855
1849 ..	Nov. 10th ..	52,02,680	March 31st ..	35,11,425
1850 ..	Nov. 3rd ..	55,09,200	May 12th ..	19,96,070
1851 .	Dec. 15th ..	51,57,840	May 28th ..	36,11,005
1852 ..	Aug. 27th ..	58,31,245		
	Average Rupees	49,18,093	Average Rupees	25,41,030

(26) *See* the Financial Letter No. 480 of 1843. The Collector of Belgaum made a requisition for bank-notes. This letter which was addressed to the Secretary of the Govt. of Bombay was promptly referred back to the Bank of Bombay "so that it might be left to bring its own notes into circulation." *See* the Financial Consultation No. 19—16th May, 1843.

(27) This table is one of the three annexures showing the actual operations of the Bombay Bank attached to the Report of the Directors of the Bank submitted at a special General Meeting of the proprietors held on Thursday the 2nd Sep.,1852. This report was submitted to the Bombay Government in order to secure the privilege of conducting exchange or to reduce the capital of the bank by almost one half.

STEADY INCREASE.

The issue of bank-notes began to increase steadily during the decade of 1850 to 1860. The notes were received freely in the interior and paid into the mofussil treasuries in payment of the Government demand. The following return taken from the Bombay Government Records shows that "there was a large demand for bank-notes. Any instance of forgery or fraud or even a suspicion thereof has not yet been reported with reference to bank-notes received into or disbursed from the District Treasuries."

Return of Bank-Notes in the several civil treasuries of the Presidency on 1st April, 1856.

	Rs.	a.	p.
In the Bombay General Treasury ..	4,66,590	0	0
" " Land Revenue—Bombay	3,575	0	0
" Tannah Treasury	25,480	0	0
" Ratanageree Treasury	200	0	0
" Poona "	3,380	0	0
" Ahmadnagar "	560	0	0
" Candesh " . ..	2,070	0	0
" Sholapore " . ..	14,425	0	0
" Dharwar "	5,020	0	0
" Belgaum "	340	0	0
" Ahmedabad "	1,510	0	0
" Kaira "	1,950	0	0
" Surat "	3,710	0	0
" Broach "	47,280	0	0
" Hyderabad "	145	0	0
(28) " Karachi "	165	0	0
" Shikarpore "	....		
" Satara	....		
Political Agent at Aden	9,865	0	0
Commissioner of Customs and Salt and Opium	695	0	0
Total ..	5,86,960	0	0

(28) The area of Sind was only recently acquired and added to the province of Bombay. Hence the note circulation was not so great in these newly acquired portions as in the older areas.

The average circulation of the notes increased rapidly during the last few years. It greatly aided the paid-up capital of the Bank which was about fifty-two lakhs and twenty-five thousand rupees. Throughout this period of our study there was no necessity to increase the paid-up capital and we do not come across any such attempt made on the part of the public as was the case in the matter of the Presidency Bank of Madras during this period of our study.

Bank Post-Bills.

Even in the matter of the post-bills the practice of the Bank of Bengal guided the Bombay Bank. The Acting Secretary of the Bank of Bombay requested the Governor-in-Council to give the same facilities to the bank post-bills as were given to the Bank-note.(29) The Bombay Government immediately ascertained the prevalent practice in Bengal and on learning that "the Bank post-bills of the Bank of Bengal were receivable at the Provincial Treasuries in payment of dues to the Government so long as it could be done without financial inconvenience or loss of profit obtainable by the sale of bills drawn by the Public officers on such treasuries" similar orders were passed with reference to the post-bills of the Bombay Bank. These were to be received *in the different Treasuries on similar terms prevailing in Bengal.*(30)

(29) *See* the Financial Letter, dated 29th May, 1840.

(30) *See* the Financial Consultation No. 88, 1840—14th Sept., 1840. Italics mine.

Guard.

There is still another point which proves my contention. The Bank of Bombay which had to employ a guard to keep watch and ward over its strong room wrote to the Government of India for information concerning the guard employed by the Bank of Bengal. On 22nd April, 1840, the Chief Secretary of the Government of Bombay wrote as follows—— "The Bank of Bengal was guarded by a body of regular guards consisting of one Havilder, one Naik and eight Sepoys making 10 in number."(31) Undoubtedly a similar guard must have been appointed by the Bank of Bombay to keep watch and ward over its strong building.

Deposits.

Owing to the fact that the Government officers deposited their balances in the Presidency Bank, the general public soon began to patronise the Bank, but the first set of depositors took the liberty of altering the cheques and making them payable to order instead of to bearer thus altering the legal character of the instrument and enforcing additional responsibility on the Bank in respect of the authenticity of the signatures of the endorsers. Present-day Indian Banks refuse to permit their customers this privilege to alter the word "bearer" to order which

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(31) *See* the Financial Consultation No. 22—22nd April, 1840.

(*See* also the Financial Consultation of Fort William No. 8—9th April, 1840.)

can, however, be done by the drawer of the cheque. The Indian depositors do alter the cheque from bearer to order but the Bank refuses to take any special responsibility for this voluntary change of the nature of the instrument as a result of the initiative on the part of the bank customer. Such cheques are, of course, paid by the Banks provided they are in order. But it is indeed curious to note that the Bank of Bombay refused to recognise this practice and pay any cheques thus altered by the customer. On 18th April, 1840, the following notification issued in the Bombay Castle Gazette makes this point clear.

"Notice was, therefore, given to the effect that all cheques paid on the Bank after this date must be drawn conformably with the printed form furnished to constituents and made payable to individuals and firms or bearer and not to order otherwise they will not be paid."

W. R. CAGILL,

Actg. Secretary & Treasurer.

When the practice of paying such cheques which have been altered to order has been introduced, has not been mentioned but it must have been introduced very soon as a result of the protest on the part of the customers of the bank.

LOTTERY DEPOSITS.

Just as the other Presidency Banks secured the deposit of lottery money in their cities so also the

Bank of Bombay secured the deposit of lottery sums floated in Bombay. Till private lotteries were abolished in 1844 as a result of Act V of 1844 the indigenous bankers and business men used to conduct them so as to secure profit to themselves. The money collected was usually deposited in the Bank of Bombay. The Bank was generally appointed as the place where the prize winners would be receiving their money ten days after the conclusion of the drawing. The paymasters stationed in the mofussil were asked to pay the mofussil prize-holders 30 days after the conclusion of the drawing and after that period from the Presidency Bank of Bombay. Similar practice prevailed at Calcutta and Madras so long as private and public lotteries were allowed unchecked. Lottery tickets were not only made available at the Presidency Banks and the money gathered by the sale of tickets was allowed to lie as a deposit in the Presidency Banks but the money prizes were paid at the Presidency Banks. In the case of unclaimed prizes for a period of three years the money usually reverted to the Lottery Fund in the case of all Government Lotteries. The different lotteries were usually advertised in the different Presidencies and in the Bombay Castle Gazette we come across several lottery advertisements, *viz.*, the Second Calcutta Lottery of 1832.[32] In the case of private lotteries the

(32) See the Bombay Castle Gazette—12th April, 1832—p. 113.

Similarly, the 54th Government Lottery was floated in 1834 and advertisements of it were published in the Bombay Castle Gazette—5th February, 1834—p. 51,

organisers must undoubtedly have pocketed the unclaimed prize money.

Rules and Nature of the Business.

A systematic study of the different pages of the Bombay Castle Gazette reveals to the readers very interesting details as regards the nature of the business and the terms on which such things were usually conducted. The Bank commenced business on 15th April, 1840, but it issued the following notification in the Bombay Castle Gazette to enable the public to realise on what terms business could be conducted with it.

The following notification points out firstly, the nature of its business and secondly, the rates on which loans and discounts were to be granted by it.

Interest	On loans on Government paper ...	... six per cent.
	On Metals ...	... six and half per cent.
	On other goods	... seven and half per cent.
Discount	On Government Bills	... five per cent.
	On private bills	... seven and half per cent.

The Directors issue notice that current accounts will be received as well as fixed deposits. No interest will be paid on current accounts.

The Bank will issue post-bills payable to order and at not exceeding thirty days' sight.

The Bank will realise dividends and interest on Government securities on account of constituents.

The hours of business were published actually on 10th April, 1840.

The Bank was to be open from 10 o'clock before noon till four o'clock afternoon.

Proposals for loans will not be received after one o'clock.

Private bills and notes for discounts will not be received after 1 o'clock and they are not to be called for until the day following.

Government and salary bills will be discounted till 3 o'clock.

Post-Bills will be issued till 3 o'clock.

All other business is to be transacted till four o'clock. (33)

Investments.

Attention has already been drawn incidentally to the fact that the investments of the Bank's were indeed of a heavy nature and amounted sometimes to 60 lakhs of Rupees, a higher figure than the volume of the actual paid-up capital of the Bank. Starting with a large amount of paid-up capital, the Presidency Bank was forced to invest in the Government securities. Too large a holding of capital proved to be the Bank's greatest difficulty and the heroic efforts

(33) *See* the Notifications in the Bombay Castle Gazette—8th April, 1840.

made by it to secure a proper field of businss have not been recorded by any of the chroniclers of its banking business. In the very threshhold of its career it attempted to establish a branch of its own at Calcutta as Clause XXXVIII of its Charter permitted it to do so. The chief reason which actuated it to open this branch was its excessive capital estimated at 33 lakhs and the lack of any scope for profitable investment in remunerative and safe lines of business in the city of Bombay itself. The other reasons which made it decide on this course of action was the non-compliance of the Bank of Bengal to fulfil the request of the Bank of Bombay to find remunerative employment of 10 to 15 lakhs of Rupees, at 7 per cent. Calcutta was selected as the proper place where the branch could be started as at that place the people were fully familiar with banking operations and because the banking capital of that city was considered insufficient to meet its needs. It was on such grounds that it petitioned the Bombay Government on 29th July, 1841 to allow it to open a branch in Calcutta.

ATTEMPTS TO CHECK OVER-INVESTMENT IN GOVERNMENT SECURITIES.

This suggestion was immediately forwarded to the Governor-General-in-council for understanding their own sentiment in the first instance. Even before its wishes were communicated to it, it refused to sanction the scheme as the proposed branch was

to be situated outside the territorial limits of the Bombay Presidency.

The Governor-General-in-Council required the sanction of the Hon'ble the Court of Directors for this step. [34]

The Hon'ble the Court of Directors refused to grant the permission on the ground that "the branch of the Bank of Bombay would be a co-ordinate note-issuing bank with that of the Bank of Bengal. An agent can be employed to discount bills and make advances on securities provided his issues are not made in the notes of the Bank of Bombay but in cash." [35]

Undaunted by this failure it strove to secure permission to conduct foreign exchange business so as to find remunerative employment for its excessive capital. This agitation was set up as the Bank's capital was felt too much for its actual operations. The alternative proposal of reduction of capital was suggested if this permission was not to be granted by the Government. The suggested modification was to be affected by reducing the share to Rs. 500 and similarly by decreasing the note-issue to one crore of rupees. The extension of loaning could be done by recognising other kinds of securities as bankable

(34) No. 19—Financial Letter from the Court of Directors to the Bombay Government, dated 26th July, 1843.

(35) *See* the Letter of the Bombay Bank signed by the Secretary Mr. Stuart to the Chief Secretary of the Bombay Government—August 12th, 1852.

securities on which the Bank might be privileged to lend. Foreign bills of six months' standing up to one crore of rupees were to be bought by the Bank. The example of the Colonial Banks conducting foreign exchange business was cited in support of its claim.

DIRECTORS' REPORT OF 1851.

The following extract from the Secretary's Report makes the situation apparent. "The Bank appears to me to have been treated at starting in a manner to preclude its working profitably. I allude to the orders requiring that the whole of the capital of Rs. 52,25,000 should be paid-up, the consequence of which was that to prevent the total loss of interest, large sums were of necessity invested in Government paper and consequently when the money market became tight instead of helping to lighten the pressure the Bank directors are obliged to add to it by throwing some of their own paper in the market and selling it for less than they have to pay for it when the money market was easy."

The Bank paid roughly only three per cent. interest on the whole paid-up capital and the suggestion was to increase this rate of dividend by granting loans on shares of Chartered Banks in India, shares of guaranteed India Railway Companies, bills of lading, shipping documents of goods in transit and consigned to Bombay, or by conducting foreign exchange transactions. In support of the Bank's

contention, the directors of the Bank submitted a report containing three annexures one of which has already been quoted. As these annexures give an eloquent statistical history of the Bank they are quoted in full.

Abstract Statement of the Annual Operations of the Bank of Bombay from the commencement of business to the 30th June, 1852.

Col. I. Year.	Col. II. Average Deposits.	Col. III. Average Circulation.	Col. IV. Liabilities Average.	Col. V. Average Investment in Government Securities.
	Rs.	Rs.	Rs.	Rs.
1840 ..	15,02,110	11,75,840	26,77,950	38,19,240
1841 ..	12,90,750	19,90,833	32,81,583	41,75,510
1842 ..	11,60,677	20,34,350	31,95,027	22,44,580
1843 ..	35,19,815	38,71,920	73,91,735	27,29,080
1844 ..	31,01,336	42,58,580	73,59,916	59,40,931
1845 .	21,64,339	38,06,080	59,70,419	55,93,516
1846 ..	19,37,546	35,23,954	54,61,500	47,89,833
1847 ..	19,13,715	40,39,803	59,53,576	44,16,416
1848 ..	20,27,246	43,36,837	63,64,083	46,15,500
1849 ..	20,94,223	45,57,447	66,51,670	41,42,751
1850 ..	20,43,812	45,75,114	66,18,926	36,69,525
1851 ..	27,20,538	33,37,595	60,48,133	32,00,716
1852 ..	25,57,280	40,58,744	65,16,024	31,93,225
Average.	21,47,952	35,05,161	56,53,114	40,40,832

Col. VI. Employed in banking operations.	Col. VII. Rate per cent. on paid-up capital of profits on banking operations.	Col. VIII. Cash balance.	Col. IX. Average rate per cent. of cash to liabilities.
Rs.	Rs. a. p.	Rs.	%
8,36,375	1 4 6	37,68,445	140·72
29,41,614	2 5 7	18,90,667	57·61
44,45,690	3 1 6	18,99,284	59·44
35,92,830	2 8 8	47,46,589	64·21
28,19,112	2 0 0	35,77,783	48·61
32,04,914	2 3 6	23,08,693	38·66
32,38,834	3 11 6	25,65,883	46·98
38,57,511	4 13 2	28,69,916	48·20
34,85,083	3 14 11	33,84,925	53·18
36,64,820	2 9 0	33,55,500	50·04
42,28,412	4 11 6	35,41,560	53·52
35,17,115	3 11 0	44,61,668	73·60
40,48,715	3 2 0	45,47,406	69·02
33,74,771	3 1 3	33,02,947	61·83

E. E. Walter Taylor—*Head Accountant.*

The following statement shows the net profit realised by the Bank from 1841 to 1851 both years inclusive; and the rate of dividend paid upon capital of Rs. 52,25,000; also what rate of dividend would have been paid had the capital been one half or Rs. 26,12,500.

Year.	Net profit per annum on paid-up capital of Rs. 5225000	Rate of Dividend.	Deduct interest on one-half of the capital proposed to be reduced.		Net profit per annum on reduced capital of Rs. 26,12,500.	Rate per annum.	Surplus Profits per annum.
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
1841 ..	2,53,778	5	1,04,500	4%	1,49,276	51·2	5,590
1842 ..	3,60,595	7	1,03,625	5%	2,29,970	81·2	7,908
1843 ..	3,61,512	7	1,04,500	4%	2,57,012	91·2	8,825
1844 ..	3,92,711	7	1,04,500	4%	2,88,211	11·0	836
1845 ..	3,85,516	7	..		2,81,106	101·2	6,704
1846 ..	4,16,117	7	..		3,11,617	112·2	11180,
1847 ..	4,11,210	8	..		..	..	..
1848 ..	3,89,388	8 & 7	..		..	..	..
1849 ..	3,01,814	6	..		..	..	..
1850 ..	3,86,507	6	..		..	..	..
1851 ..	3,18,375	6	..		..	..	..
Total for 11 Years.	39,77,523	$73\frac{1}{2}$	11,48,625		28,91,898	108	70,401
Gross Average.	3,61,593	$6\frac{1}{3}\frac{1}{2}$	1,04,420	0	2,62,899	$9\frac{9}{11}$	

GOVERNMENT'S REFUSAL.

But unfortunately neither these eloquent statistics nor the piteous entreaties of the Bank had the desired effect. No actual change resulted out of this Herculean effort. Ultimately the power to grant loans on shares of guaranteed railways was extended in 1854.[36] The Court of Directors refused to listen to any of the above requests.[37] It did not condescend either to permit the Bank to reduce the capital or to allow it to conduct foreign exchange operations.

(36) *See* the Act of 1854 amending the law relating to several Banks (20th January) of Bengal, Bombay and Madras.

(37) *See* the Financial Letter of the Court of Directors to the Bombay Government No. 1—19th Jany., 1853. Copies of this letter were also sent on 2nd March, 1853, to the Government of India.

As the grounds stated for refusing to comply with either of the requests are supposed to be based on basic principles of sound banking, a reference to them is essential. In para. three of their Letter they state "that they are not prepared to comply with either of the above requests submitted by the Directors of the Bank, that it would be at variance with every sound principle, that the Bank in addition to its regular business should engage in distant exchange business operations and that with respect to the alternative suggested by the Directors, namely, the reduction of capital, they cannot see the necessity for the measure, the dividend on the Bank shares having averaged 6 and ¾ per cent. per annum since the date of the institution of the Bank under Charter and the shares now bearing a considerable premium in the market, state further that as a consequence of the present moderate demand for banking accommodation at the Presidency it may be necessary that the Bank with a view to profit on its capital should hold larger quantity of Government paper than it would otherwise do, but that they are of opinion that if a Chartered Bank be upheld at all at Bombay it should be on a scale calculated to meet the possible requirements of the commercial community and that the amount of capital should be sufficient to inspire confidence in the undertaking—that they do not consider the existing capital to be more than sufficient for the purpose."

Para. 4. "State also that having regard to the fluctuations of risk which might be incurred by the

Bank in such operations they cannot view with favour the proposition of the Directors for making advances on the shares of the Chartered Bank of India and on bills of lading, but that they have no objection to permit them to advance money to the extent of $\frac{3}{4}$ths of their nominal value on shares in such of the Indian Railways as are guaranteed by them with interest."

Discussion of the Government reasons for refusal.

Valid reasons they are, though stated in a recondite language. Even now the Central Banks of most of the modern countries do not make any large commitments of their own so far as foreign exchange operations are concerned. It is indeed their bounden duty to stabilise the foreign exchange situation. The watching of the foreign exchange market is one of its cardinal duties. As soon as a drain of gold is threatened it is its bounden duty to restrict credit and discourage borrowing. Similarly, when unwanted gold is about to be imported into the banking system it is its duty to relax credit and encourage borrowing. The regulations with reference to the cash reserve of the Central Bank are to see that currency is maintained at gold parity and that contraction of credit takes place as soon as gold leaves the country and reaches the minimum reserve laid down by the law. The necessity to infringe the law makes it alive to its proper duty.

Secondly, the necessity of a Central Bank is to keep liquid resources to be of immediate avilability to it as occasion arises. The conversion of assets on a large scale would defeat this purpose of the Central Bank. Even a foreign branch is not considered essential to the Central Bank. The Court of Directors never realised that the Bank of Bombay was not entrusted with the administration of currency matters nor did they consider it essential to act as a Central Bank. But for the sake of their prestige they never condescended to allow the Bank to lower the capital which after all is the corner-stone of the goodwill of the Bank. The greater the capital the greater would be the trust imposed in it by the customers. A healthy public confidence can never be generated on insufficient capital.[38] The main business of banking or conducting foreign exchange is left to others and the modern Central Bank is only a currency authority administering it as a quasi-public institution. Although these high ideals did not trouble the Court of Directors still they seem to have been particularly jealous of safeguarding its credit, technical efficiency and experienced management.

(38) Even the "bogus one room banks" know this. Though their actual paid-up capital amounts to few hundreds they blazen forth their share capital as running into several lakhs. By a common understanding the bank grants advances to the directors and these are put back into the Company as capital and the bank thus gets on paper an imposing paid-up capital and the loans and the advances item also appears simultaneously. Trading on deposits ensues. These depositors' cheques are never paid and after gathering sufficient deposits the bogus banker commits his insolvency and absconds. *See* the *Statesman*—"Shady Banker Scandal" Oct. 4th, 1928, p. 9.

BANK BRANCH.

It has already been recorded that an attempt was made in 1841 to open a branch in Calcutta. Having been defeated in its object in this direction, it did not strive afresh to establish another branch within the territorial limits of the Bombay Presidency. The suggestion to open a branch at Karachi was first made by Mr. (later Sir) Bartle Frere, the Commissioner of Sind in his letter to Lord Elphinstone on 23rd May, 1857. The reasons mentioned in the above letter in support of branch extension still hold good at the present day even after the lapse of so many decades.

" It would be an immediate boon to the country at large and a very great improvement in our fiscal administration if branches of the Bank of Bombay were to replace the Collectorate Treasuries with their clumsy accounts." This is exactly one of the reasons why the Imperial Bank is allowed to open branches at district headquarters and other places and absorb the sub-treasury or district treasury of the place.

Besides this book-keeping advantage which after all was a minor one, Mr. Frere did not fail to realise that "the most important advantage arising out of an extended branch banking policy was the introduction of a well-regulated note currency circulation which would tend much to obviate the present inconvenient and cumbersome mode of making all payments in a silver currency" and he was shrewd

enough to realise "that the natives are ever ready to adopt any change when it may be clearly shown that it is for their advantage to do so."

Thirdly, a bank-note circulation "would have afforded a relief to the present drain on Europe for silver and ultimately as credit instruments became popular would have lessened the drain of silver from Europe eastwards." It is distinct then that there were some shrewd observers who noticed the drain of precious metals to this country and sought to check it by bank expansion. But unfortunately their good advice was not heeded and India, still continues to act as "a sink of precious metals," as some of its misguided critics put it, for foreign investment banking hardly exists in the country even at the present day.[39]

But his zeal to start a branch made him recommend Government guarantee for meeting the expenses incurred in the opening of the branch. "The Government guarantee would not after all cause any loss to the Government" argued Mr. Frere. The Bank of Bombay stipulated for this Government guarantee and the Accountant General who had to examine the above proposition refused to grant the needed sanction. He held the opinion that "a run on the branch would be disastrous without the help of the Government Treasury or Mercantile

(39) For a further discussion of the subject *see* my Present-Day Banking in India, 3rd Edition—Ch. on Banking Resources.

Houses to support it. No direct advantage would be derived by the Government out of this step." [40] It was as a result of these unconvincing arguments that this step was given up and until the Act of 1862 gave it extended powers the nature of its business was never changed nor did it launch on any venturesome enterprises as the opening of branches outside the presidency. The Bank of Bengal was, however, given some allowance as compensation for opening branches. [41]

RELATIONS WITH THE TREASURY.

Though there is not a single occasion on which the Bank of Bengal was helped by the Government still the instances of mutual help between the Bank of Bombay and the Government have not been studied by the previous writers and useful inferences drawn out of these positive instances and particular points of contact between the semi-State Bank and the Government.

Firstly, the instances of Bank's help to the Government of Bombay must be studied. On May 14th, 1840, the Bombay Government took a loan of twenty-five lakhs on promissory notes issued to the Bank of Bombay payable after a notice of 90 days given by either party. The Government undertook to pay interest at four per cent. The financial

(40) *See* His Letter to the Bank of Bombay—9th June, 1857.

(41) *See* 1862 Agreement with the Bank of Bengal—quoted in Part I of this monograph—Last chapter.

pressure consequent to the declaration of the war against the Sind Chieftains was mainly responsible for this arrangement and as the initial financial requirements had to be supplied by the Bombay Provincial Government it had to bear this strain.[42] A second loan of twenty lakhs on the same conditions as the first was issued on 4th September, 1840.

But the financial conditions were not bettered to any extent as the drain necessitated by the Sind War proved too heavy a burden. As further drafts on the Bank's loanable resources would have seriously curtailed its lending accommodation to the general businessmen and private borrowers the Government of Bombay was asked to float Treasury Bills and in Nov. 1840 Treasury Bills to the extent of Rs. 2,56,100 were floated. For the additional

(42) The following memorandum makes clear the loaning transactions. No. 239 of 1851-1852--Financial Department—Government Records.
Loan Branch.

Fifty lakhs of Rs. received from the Bank of Bombay on Loan, namely,

On 14th May, 1840	.. Rs.	25,00,000
and On 3rd Sep., 1840	.. Rs.	25,00,000
	Rs.	50,00,000

Eighty notes bearing Nos. 1 to 80 were granted to the Bank for the above loan.

The notes bearing No. 77 and 78 for rupees ten lakhs were subsequently subdivided into fifty-eight notes bearing Nos. 1 to 55 of 77 and Nos. 56 to 58 of 78.

The Principal and Interest of the whole one Hundred and thirty-eight notes having been discharged the notes have been bound up in one Volume which is herewith forwarded for deposit in the General Record Room.

Bombay.
Accountant General's Office.
15th November, 1851.

The Chief Secretary
to
The Government of Bombay.

requirements that were needed the Bombay Government had to draw bills on the Calcutta Treasury for financing the Sind War operations.[43]

Numerous were the instances on which the Bank of Bombay was helped by the Government. Attention has been drawn already to the willingness of the Bombay Government to help the Bank during the troubled period of a "run" on it in 1848, which was initiated solely as a result of the discovery of forged notes of the Bank in the native bazar.

MONETARY PRESSURE.

Very early in the year 1841 the Bank of Bombay found itself subjected to a pressure of bullion and the demand for the bullion capital on the part of the people was so keen that the cash resources were reduced to the legal limit. As additional pressure for bullion was being felt, the Bank naturally sought the protection of the Government Treasury. With its assistance five lakhs worth of bank-notes were changed into actual cash. The other demands due to the Bank were also paid in cash with the result that the cash situation was strengthened and there was no actual real breaking of the rule stated in the Charter.

It is indeed a pity that the extreme pressure of 1845 in the Bombay money market has not been commented on by any of the writers. The cash

(43) *See* the Financial Consultations—1840.

situation of the Bank again began to cause great anxiety as it fell below the legal limit by about Rs. 1,23,743. The Bank realised that a forced sale of its securities in a panicky market would mean very heavy loss and to avoid this contingency a loan of Rs. 5 to 10 lakhs was negotiated for on 3rd April, 1845 at four per cent. rate of interest. (44) As the then busy season in the money market was roughly covering three months a strengthening of the cash situation was felt absolutely inevitable. (45) This application for the loan was sanctioned and the matter was promptly referred to the Supreme Government of India. The Governor-General-in-Council took strong exception to the loan and insisted on the Government "abstaining as much as possible from interfering with the dealings of bankers and merchants." He opined that "Government help would tend to perpetuate bad management." He was labouring under the opinion that "the initial mistake lay in the Bank's unduly large holding of Government securities." He also held the opinion that "the unchartered banks were solely responsible for this situation." While they issued notes "they depended solely on the Bank of Bombay for the needed cash." He took strong exception to the low rate at which the loan was negotiated. While

(44) *See* the Financial Consultations—Government of India—1840, Feby. Nos. 35 to 45.

(45) At the present moment the busy season in Bombay extends over 6 months from November to May.

the Bank was lending at 6 and half per cent., there was no reason why four per cent. alone should be charged for the accommodation. Summing up his objections he finally ordered that "no further assistance of a similar nature was to be given in the future." (46) The Court of Directors simply endorsed the opinion of the Supreme Government.(47)

On the receipt of the Court's letter Mr. J. P. Willoughby, the Secretary of the Government wrote out a strongly-worded minute protesting ably against the sweeping remarks made with reference to the relationship between the Bombay Government and the Bank of Bombay. The character of the monetary stringency was carefully explained and the letter written in reply not only repeats the firm conviction of the Bombay Government but states the correct relationship that ought to exist between the Government and the Banks. As he correctly remarked "there is a unity of interest between the Government Bank and the Government which made the Bombay Government afraid to refuse help to the Bank in the hour of its trial." Temporary aid was to be rendered on such occasions when the Bank suffered from lack of cash. The Government can easily render aid without either risk or cost and watch over the destinies of

(46) *See* the Financial Letter from the Secretary of the Government of India to the Secretary of the Bombay Government.

(47) *See* the Letter No. 20 of 1845 from the Court of Directors to the Bombay Government.

the Bank and see the general affairs of the Bank conducted on safe principles. To quote his own words "that on any sudden and unseen emergency the Banks might rely on the support of the Government while on the other hand the Bank could be prepared to be useful and accommodate Government whenever in its power."

As the Bank suffered from lack of cash alone and not from lack of capital it could retrieve its position immediately. It not only repaid the loan on 29th May, 1845 but during the course of a month the cash reserve of the Bank soon rose to Rs. 1 lakh 31 thousand 8 hundred and 92 more than [48] the legal sum which it had to keep according to Act III of 1840.

Such views expressed in such strong language in defiance of their cherished opinions naturally provoked the Court to reply in strong terms. The Court of Directors objected strongly to these sentiments on the ground that they disclose "a want of banking knowledge" and protested against the statement that "public resources should occasionally be made subservient to the interests of the Bank in order to save the proprietors from the loss arising out of sale of Government securities."

Another point of criticism was that "the Bank actually kept on an average Twenty-one lakhs

(48) *See* the Financial Letter from the Bombay Government to the Court of Directors, 29th May, 1845.

as cash reserve and this was too low while Government securities were being held in invariably too large figures for banking operations. This evidently was imprudent management." It also remarked that in future "the Bank should so conduct its business as not to seek the aid of Government under any circumstances."

"We do not consider that the explanation of the Government as regards Bank directors to acquit the Government directors of blame in having sanctioned the continuance of an excessive investment of funds belonging to the Bank in Government securities which occasionally amounted to more than 70 lakhs of Rupees and which notwithstanding the partial reduction of amount noticed exceeded the total capital of the Bank, until the month of April last when it still amounted to Rupees 4,91,523. That the interests of the proprietors have been consulted by this measure is alleged as one excuse for the impropriety, is to our mind no extenuation of the irregularity for one object of the Government Directors being placed at that Board evidently was to see that no private or temporary considerations should be permitted to operate to the embarassment or detriment of the Institutions or of the public interests which are so intimately involved in the maintenance of its credit and efficiency."

"We are of opinion that the Government Directors of the Bank should be chosen from the

highest ranks of our Civil Service such as the Accountant General should always be one of them."[49]

In spite of these repeated injunctions the Bombay Government not only wisely determined to help the Bank at the time of the run in 1848 but actually helped the Bank in 1865.

Relations with the Bank of Bengal.

It is indeed a pity that the Bombay Bank's loan from the Bank of Bengal remains unrecorded by the existing writers on banking.[5] It affords us not only an instance of banking co-operation in those olden days which ought to be revived in these present days but certain legal consequences ensued out of this action. The Bombay Bank deposited five lakhs worth of Government securities and took a loan from the Bank of Bengal in 1850 but it was held that Sec. 25 of the Charter did not grant such privilege to mortgage its assets and borrow on the same for helping its operations. Mr. C.R.M. Jackson, the legal luminary who was consulted by the Governor-General-in-Council, decided that "the Presidency Bank was legally unable to pledge its

(49) *See* the Letter from the Court of Directors to the Bombay Government 22nd Sep., 1846. As a matter of fact the Accountant-General and the Secretary to the Government in the Finance Department were always the ex-officio directors of the Presidency Bank.

(50) Symes Scutt alone mentions this but passes by this fact as an event of no importance.

securities to raise loans."[51] As a result of this disability the Presidency Banks were never able to borrow locally from each other[52] or even in London to ease the stringency in the Indian money market. It was only in 1920 that the Imperial Bank of India was empowered by rules in its Charter to pledge its securities in London and borrow on its assets for its banking operations.

Bank Returns

Although the previous writers have stated that the Government reserved to itself ample powers of control including the right to inspect the books of the Bank and that half-yearly returns were insisted upon by the Government to enable it to understand the progress and state of business the particular type insisted upon by the Government has not been recorded by the previous writers. In July, 1843, the Governor-General-in-Council sent in a letter asking the Bank to furnish monthly balance-sheets of a particular type exhibiting the Bank's position on the last day of each month in addition to half-yearly returns.[53] In order to understand the detailed nature of its operations and to know the

(51) *See* the Financial Consultation—No. 8—1850 (Bombay Government). *See* also the Financial General Letter of Bengal to the Court of Directors—7th February, 1851, Paras. 86, 87 and 88.

(52) This was removed only in 1878 and "the power to borrow in India was granted but it remained a dead letter due to the restricted nature of the local money market."

See Sir Clinton Dawkin's statement in the Legislative Council, 1900.

(53) *See* the Financial Consultations—No. 31, 1843.

particulars required from the Bank one statement is quoted at random from the numerous monthly returns sent in by the Bank to the Government.

MONTHLY RETURN

Submitted to the Government of India on October 31st, 1843.

Assets.

Col. I.	Col. II.			Col. III.		
Date.	Bills discounted.					
	Private.	Govt.	Total.	Deposit of Govt. securities.	Loans on private securities.	Total.
1843	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Oct., 31st	4,14,212	26,077	4,40,289	1,72,595	24,410	1,97,005

Col. IV.		Col. V.	Col. VI.
Accounts of credits.		Total advances.	Cash balances.
On deposit of Govt. securities.	On deposit of private securities.		
Rs.	Rs.	Rs.	Rs.
7,39,640	1,654	1,37,858	69,91,514

Col. VII.			Col. VIII.	Col. IX.
Investment in Govt. securities.			Remaining miscellaneous assets including Govt. stock.	Total Assets of the Bank.
Co.'s Rs.		Sa Rs.		
Co.'s paper 4 per cent.	5 per cent.	4 per cent.		
Rs.	Rs.	Rs.	Rs.	Rs.
27,56,000	*21,60,200*	*2,40,600*	6,14,152	1,41,41,054

Liabilities.

Col. I.		Col. II.	Col. III.
Bank-notes and Post-bills.		Aggregate balances of accts. C-deposit of whatever nature.	Total liabilites repayable on demand.
Notes outstanding.	Post-bills outstanding.		
Rs.	Rs.	Rs.	Rs.
5,39,95,915	14,918	34,04,108	88,17,621

Col. IV.		Col. V.	
Bank rates of business.		Interest charged.	
Discount charged.			
Govt. Bills.	Private Bills.	On loans on deposit of goods and metals.	Accounts of credit on deposit of Govt. securities.
5 & 4 per cent.	6 per cent.	5 per cent.	5 per cent.

Interest charged on Account of credit on deposit of goods and metals, 6 per cent.

Bank Notes.

Issued bet. 1st and 31st.	Received bet. 1st and 31st.		Co.'s Rs.		Notes.
			In circulation of 31st Oct.		
65,44,350	49,88,265		Co.'s Rs.		Notes.
		For	10	Rs.	75,660
		,,	20	Rs.	50,960
		,,	25	Rs.	69,775
		,,	50	Rs.	1,67,800
		,,	100	Rs.	7,16,900
		,,	500	Rs.	7,26,500
		,,	1,000	Rs.	23,97,000
		,,	5,000	Rs.	10,95,000
		,,	10,000	Rs.	1,00,000
				Rs.	53,99,595

BYE-LAWS.

After establishing the fact that the Bank of Bombay is much indebted to the earlier experience of the Bank of Bengal it follows easily that the Bank met with success from the very early start as it closely followed the footsteps of the more experienced Presidency Bank of Bengal. A sound charter, economical management, perfect willingness to follow the footsteps of the experienced Presidency Bank, and the co-operation of the Government as well as its customers led to its prosperity from the

bye-laws governed the practice of the Presidency Banks but the faithful observance of the same is a matter of no small credit.[55] Even a rough idea of the wise bye-laws is not to be gathered by reading the older text-books on the subject. To quote the most salient of these bye-laws "money could not be advanced to anyone excepting the Bank where fully secured by Government securities or railway guaranteed shares. There was a private discount list which was useful in limiting the bills that could be discounted for individual customers. This information was usually kept in the "Opinion Book" which was thrown open to directors alone. In the purchase of native hundies the opinion of the broker or the native directors who were thoroughly aware of the wealth and financial standing and character of the parties was sought. The discounting of the negotiable securities on which the responsibility of two persons did not appear was not allowed. No negotiable security could be discounted which had a longer time to run than three months. No money was to be lent on any bank share or certificate of bank

(55) It was so successfully conducted that during the whole of this period the Bank of Bombay did not lose more than Rs. 20,000. This is the estimate of Mr. A. K. Corfield given by him before the Sir C. Jackson Committee, p. 329. The Report of the same Committee estimates it at a higher figure, namely, Rs. 25,000. This evidently must be taken as an authoritative estimate. *See* para. 1 of the Report of the Committee. The following extract from a minute of 7th April, 1845 signed by J. H. Crawford and L. R. Reid shows that "not one bad debt has yet been CONTRACTED BY THE BANK"—J. W. Willoughby in his confidential memorandum says that "Only one bill was dishonoured during the whole course of five years." Financial Consultation, No. 36, Ft. William—13th February, 1846.

or other shares. No discount, loan or cash credit to any individual or partners of the firm could be made in any way beyond three lakhs. No discount or loans could be granted unless the readily available cash in the immediate provision of the bank was at least one-fourth of all the demand liabilities against the bank outstanding at that time. No person could overdraw his account at any time."

The Act of 1862.

This great body of bye-laws undoubtedly prevented the bank from conducting unsound operations but they might also have limited "its capacity to do a great amount of good to the commercial public." The Act of 1862 widened its scope of operations and rendered unnecessary the excessive investment of funds in Government securities which often proved easily unrealisable into cash at any moment of necessity. Mr. S. D. Birch who realised this difficulty was instrumental in securing a revision of its Charter in 1862 and freeing it from the shackles of the "straight jacket" as the earlier Charter might be styled.

By 1863 the mercantile demand for accommodation increased greatly as a result of the introduction of endless schemes and Joint-Stock Companies induced by the plethora of wealth which was secured by the Bombay Cotton merchants and dealers as a

result of the American Civil War which tended to cut off the supplies of American Cotton to the European Cotton industry. So the Government granted a new charter on the ground that the old one of 1840 was found "in many respects inconvenient, imperfect, and unnecessarily restrictive." Enlarged powers were given to the Bank as regards the increase of capital. It was made independent of all Government control and new kinds of business could be undertaken. The power "to lend on shares of public companies in India" was granted. Unlimited advances on personal security could also be made. These clauses proved the "flood-gates of the Bank's ruin."

1863-1866 Period.

The capital was subsequently increased to the full limit allowed £2,10,000 which included the original capital. The Government shares were raised from 300 to 600. It was again increased to 1200 shares. The Bank, however, began to experience difficulties in May, 1865 and in spite of Government help could not retrieve its position. The Government had to render aid not only on the ground of its being a shareholder but to save its own credit and avoid political and financial complications which may arise out of its failure. The general share mania and failure as the result of the cotton collapse knocked the bottom out

of the securities on which the loans were [56] made. It fell as a peal of thunder on them. Payment of pretended profit out of real capital was made in 1866 just to make a show that everything was going on, on right lines. It was, however, felt that the capital was too large for sound business and the Directors' suggestion to reduce the capital to £1 mil. was approved by the Government and Act I of 1867 permitted this reduction. Even this however proved too large and a further reduction was proposed in August, 1867. Though the Act 15 of 1866 repealed the clause permitting the Bank to make loans on the shares of public companies in India on the ground that this objectional power was not in conformity with the privileges of the other Presidency Banks, nothing could be done to save the Bank. A severe run on the Bank took place in February, 1867 and deposits to the extent of 169 lakhs were withdrawn. It could be stopped only by the Governor-General-in-Council permitting the Bombay Government to lend 150 lakhs out of its funds. A sum of £1 mil. was actually

(56) About 118 Public Companies failed in 1865 and they had an aggregate nominal capital of upwards of £50 mils. *See* the pamphlet "The late Government Bank of Bombay." Its history—p. 15. A copy of this exists in the Imperial Library of Calcutta. It is written by an anonymous writer. Symes Scutt also gives a graphic description of the crisis of 1865 and 1866. The crisis arose as an abuse of credit accompanied by excessive speculation and the diverson of capital from its legitimate purposes was the inevitable result which followed the undue expansion of Companies having in too many instances, unsound foundations. During the crisis of 1866 six important banks were closed and the bank rate rose to 15 per cent. 60 days' bills on Bombay were sold at 25 to 30 per cent. discount in the Calcutta money market."

placed in its hands. This was the second time the Government had to aid the Bank of Bombay.

Bank's own Diagnosis

The Report of the Bombay Bank dated 8th August, 1867 which was almost " a funeral oration " and can be considered as "a dying speech and confession" plainly admits that two sets of causes were responsible for the failure, *viz.*, those arising out of special and those arising out of general causes. The six elected directors were representing practically one group of particular interest and the election was always managed in such a way as to secure for them a preponderating majority. There was again no limit to the powers of the Secretary in respect of loans and advances. So far as the general causes were concerned the increase of capital when it was not actually needed for legitimate banking purposes was the chief one. The enactment of Act 28 of 1865 which enabled the dishonest debtor to obtain a ready discharge through the Court was a contributory cause for it disabled the Bank directors to retrieve the position of the Bank. Another legislative measure which contributed a good deal towards unsound management was the permission granted to lend on shares of public companies.

Commissions' Findings.

Not satisfied with this explanation the Bombay Government appointed a Commission to enquire into the causes of the failure. After a searching inquiry

extending into the most minute details of the Bank's operations and practices it came to the general conclusion that "the Act X of 1863 removed many of the earlier restrictions permitting the Bank to transact business of an unsafe character. There was an abuse of the power by weak and unprincipled secretaries acting under the influence of a designing native director, Premchand Roychand. The President and directors were negligent, failed to do their duty and omitted to pass bye-laws and did not exercise proper supervision and control over the Bank and its secretaries and they did not ascertain how the business was carried on. The very exceptional nature of the times and the absence of sound legal advice and assistance were no less responsible for its failure than the incapacity [57] of directors who were not conversant with banking business."

While these general reasons convey an idea of the circumstances which led to its failure the laxity of management which prevailed can only be understood by a thorough study of the oral statement of the witnesses before the Sir C. Jackson Commission. A few such glaring instances can be quoted for these can serve as beacons to the existing banking institutions. Loans which could not be obtained at the head office could be secured easily at the branches without the cognisance of the directors. Employees of the Bank were freely allowed to have many other side-lines of business. Their having too many irons in the

(57) *See* para. 47—Report of the Sir C. Jackson Commission.

fire was almost the chief reason why adequate attention was not paid to details. Lavish expense was made on bank buildings at Kurachi. Loans of 25 lakhs of rupees were made to Premchand Roychand on the co-operation of five leading banks but not on their guarantee, although he was known to be thoroughly insolvent at that time. This was done with the full knowledge, if not, at the instigation of the Government Directors. Granting cash credits on personal security (*i.e.*) promissory note signed by the borrower was freely pursued. Discounting promissory notes without any additional security was indulged in. Above all the Government itself soon relaxed its tightening grip even after its first interference and timely help in 1865. It kept quiet and tacitly acquiesced in the reduction of capital. The Government Directors forgot "common prudence" and proved unequal to their position in 1864, 1865 and 1866.[68] These are the very pitfalls to be avoided by the modern joint-stock banks if they are to prevent any widespread disaster from overtaking them. It would be impossible to retrieve the position of a Bank however skilful and cautious the latter-day management might be in avoiding these venturesome tasks, when the earlier management is throughly unsound. During days of credit inflation and risky business expansion similar to those which the Bank of Bombay experienced, it is the duty of every

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(58) *See* Sir W. Mansfield's and the Finance Member Mr. Massey's Minute on the failure of the Bank of Bombay in 1867.

cautious banker to convert his assets into liquid condition, pay off his borrowings with correspondent banks and clean up bills payable at the Central Bank. He should suggest a similar line of action to his business customers and dissuade as far as it is possible for him to do large extension of capital, heavy commitments of raw material, large labour forces and over-extended and too liberal credit terms to these customers. It is just the opposite line of action that the prudent banker has to pursue whenever there is business or industrial depression in society.

In addition to this self-protection it is the duty of the banker to check further overproduction in society. The banker can afford to do it by virtue of his very wide and general information about finance, production, marketing, consumption and other economic aspects of life. As T. Veblen says "the banker belongs to the class of pecuniary experts whose business is the strategic management of interested business relations of the economic system." It is the banker's bounden duty to introduce proper system and order into the "alleged planlessness of the competitive, capitalistic and profit economy."

CHAPTER VI.

THE MEANING OF GOVERNMENT PARTNERSHIP.

The nature of the relationship explained in detail.—Some queries arising out of the relationship.—Favoured Banks.—Government's help.—Nationalisation of Banks.—The arguments for nationalisation of Banks.—Advantages of Nationalisation.—Disadvantages of nationalisation policy.—Bank's services and help to the Government.—Mutual help.—More help if the Government had the necessary imagination to extend support to the bank-notes.—Depriving the note-issue in 1861.—Lessons to posterity.—A rightly capitalised Bank or else fatal disservice to the community.—Overinvestment in securities.—Banking success depends on willingness to learn something out of the experience of others—Wisely drawn bye-laws.—Government's help to the Banks in the time of a crisis.

Relationship between Government and Banks.

The true and intimate relationship existing between the Government and the Presidency Banks during this period of our study has not been fairly stated. Firstly, they were banks established by the Government with the willing co-operation of the shareholding public. The subscription money was

actually paid to the Sub-treasurer of the Government.[1] The following receipt shows it to be the case.

"Received the eleventh day of April One Thousand Eight Hundred and Forty from the Sub-Treasurer of the Government of Bombay, Rupees Fifty One Lakhs and Seventy Five Thousand being the amount lodged in the General Treasury up to 1st instant as subscriptions upon the capital stock of the Bank of Bombay and now paid over to us in accordance with clauses 5 and 6 of Act III of 1840."

Rs. 51,75,000, For the Bank of Bombay.

Signed—W. Smyttan.
J. H. Crawford.
F. M. Davidson.
G. Moore.
F. Cowsajee.
L. M. Reid.
H. A. Morris.
H. G. Gordon.
S. Swanson.
William Cargill,
Acting Secretary.

The Government was a part proprietor holding shares in the Presidency Banks. The Charters of Incorporation contained wholesome restrictions as regards the nature of the banking operations and these

(1) *See* the Financial Consultations—No. 17—1840. The accompanying letter —No. 676 explains this transaction.

were levied in the first instance at the suggestion of the Government. Monthly balance-sheets of a particular type exhibiting clearly the Bank's position on the last day of the month were required from the Bank of Bombay. Though it subscribed quite a small portion of the share money the Government retained to itself the power of nominating three out of nine of the directors. The bye-laws governing the business of the Board of Directors were so framed that though three directors could contribute a quorum, one was to be a Government director. The Government directors who were to act as local trustees were not nominated from the list of shareholders. But persons holding high situation in the Financial department such as the Accountant General, the Financial Secretary to the Government and the Chief Commissioner for Customs were generally selected as the Bank Directors. These were the ex-officio directors who were not allowed to hold shares in any Presidency Bank. So early as in 1847 an ex-officio director was considered disqualified to become a director of the Presidency Bank by virtue of his holding of the Bank stock.(2) This was practically reinforced with vigour after 1852 when no Government servant was declared eligible as Bank director

(2) *See* the Financial Letter No. 2, from the Court of Directors to the Government of India 20th January, 1847. Mr. R. Walker, a Government Director of the Bank of Bengal was asked to divest himself of the character of shareholder in that institution—*See* para. 22—Financial General Letter to Court from Bengal—17th March, 1849.

of any Bank. (3) It is clear then that those Government Directors were undoubtedly meant to act as a real counterpoise to the commercial directors whose importunities arising out of mere pecuniary self-interest might otherwise carry the day or sacrifice sound banking or make the Secretaries forget common prudence and become a prey to speculation. The Government directors unconnected with trade, uninfluenced by speculation and well-versed in the theory of finance and banking were really meant to check the commercial directors if they were to overstep their power or neglect or betray the trust imposed in them by the shareholders. Their presence was meant to prevent any mischief on the part of the mercantile directors. If these were to be safely compared to the fore-legs of the Stag, the Government directors were indeed acting as the hind-legs of the Stag. For quite a long time it was the practice and convention to elect one of the Government Directors as the President of the Board of Directors. The Government had absolute legislative and executive authority in its hands. The organisation, flotation and the kind of business they could do were all subject to Government approval and supervision. Thus viewed the Government was the principal shareholder, the director, the trustee and the legal guardian of the Presidency Banks. Hence Mr. Massey

(3) *See* Resolution No. 573 of 1853—Resolution of the Territorial Financial Department—The attempt to pass banking legislation ended after all in this futile piece of legislative enactment.

aptly terms them "the Government guaranteed Banks." Sir William Mansfield uses the expression "quasi-State Banks" in describing the Presidency Banks. They were thus considered as "quasi-State guaranteed banks." But the most material way in which the Government helped the Presidency Banks is not recorded clearly by the previous writer. The Presidency Banks were allowed bills on the Provincial Treasuries and these could be sold at a moderate rate of exchange for the accommodation of merchants and others requiring remittances to the Provinces. (4)

Some Queries.

Did this conduce to safe and sound banking? Was the Government power properly exercised by the directors or does the incompetence of the Government Directors of the Bank of Bombay during 1864 and 1865 mean anything? Is the wise management of the Bank of Bengal during 1857 at the instance of the Government Directors to go unheeded without being taken into account when the final verdict on the competency or incompetency of the Government directors is to be passed? What was the nature of the benefit arising out of this connection between the Bank and the Government? Are there any lessons to be learnt out of this machine? Can the quasi-State Bank be recommended to solve the

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(4) *See* Public General Letter to Court—14th April, 1806—Para. 5.

present-day impasse brought about by the rejection of the Reserve Bank bills ? Is this example to be considered an obsolete idea alone ?

FAVOURED BANKS.

Some detailed answers to some of the above queries are necessary for our enquiry. Besides it is necessary to acknowledge the other services done by the Presidency Bank before the due meed of praise or blame can be awarded to it. The Presidency Bank of Bombay conducted the Government business and it was the Bank in which all moneys intended for special security were deposited.(5) It was its shares alone which could be deposited by all officers as security. The following resolution makes it clear.

"The President-in-Council resolves with the exception of the Bank of Bengal and the Chartered Bank of Madras and Bombay in all of which the Government is a joint-Proprietor *no shares in any private Bank or joint-stock bank company whatever be accepted as security* from public officers of the Government."(6)

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(5) The laying out of trust money in the Bank of Bombay Stock was approved even by the Master of the Rolls and the Court of Equity in England. *See* the case- In re Iredell.

(6) *See* the Resolution passed by the Government of India—Financial Department—6th May, 1847.—Italics mine.—The practice of exacting securities existed in 1830 and the following extract from the Letters from the Court of Directors to the Government of Bombay makes it clear. "All officers of the Engineering Establishment to whom the execution of public works is committed should furnish security to the extent of at least 10 per cent. upon the average annual amount of the cash advances with which they are supplied."

GOVERNMENT'S HELP.

The Bombay Government always considered that it had a moral responsibility for the sound and successful working of the Presidency Bank. On several occasions it went to the extreme length of incurring the displeasure of both the Government of India and the Hon'ble the Court of Directors for its views on Government relationship towards the Presidency Bank. In spite of their severe injunctions to refrain from helping the Presidency Bank even at its hour of trial, it was bold enough not only to remonstrate against the pernicious doctrine inculcated by the Supreme Government and the Hon'ble the Court of Directors but stand ever-ready to help it with cash in times of an unforeseen contingency as a "run" organised by the panic-stricken note-holders who happened to discover a few forged notes of the Bank of Bombay in actual circulation. On one occasion it went to the extreme length of permitting the Governor of Bombay, Sir Bartle Frere, to advance if necessary 150 lakhs so as to prevent the Bank of Bombay from suspending payment. For

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Similar practice existed both in Bengal and Madras. The Bengal Government required all officers in charge of districts to enter into bonds of Rupees 10,000 and the temporary officers of the building department had to furnish Rupees 5,000 each. The Madras Government required all the Executive Engineers to furnish security to the Government in various sums proportioned to the average amount of their disbursements.

These were the public officers that had to deposit security and from 1847 the security could be only Government paper or the shares of the Chartered Presidency Banks alone.

quite a long time the East India Company shielded the Presidency Banks from competiton at the hands of Chartered Banks started in London. But the main lesson of Government partnership was this. It strengthened the confidence of the public in the stability of these institutions and conferred prestige on them, which no other banks could possess. In an age when the people wanted the Government to do everything for them, banks without Government partnership would not have succeeded for confidence the bedrock of all banking prosperity would not have been reposed in private institutions. It had its own disadvantages however. It very often reduced the sense of responsibility on the part of the commercial directors. Sometimes till the threat of prosecution was trotted out before them they did not yield to the sound reasonings on the part of the Government directors.(7) The main evil of the quasi-state bank is that the shareholders might easily become less vigilant and the belief might be easily induced that the liability of the Government beyond its own subscribed capital would be existing in the case of the failure of the Bank. We have already seen how such mistaken belief existed in the minds of the shareholders of the Bengal Military Bank simply because the three ex-officio directors were high Government officials nominated as its directors.(8)

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(7) *See* Brunyate—An Account of the Presidency Banks—Chapter—I, p. 13.

(8) *See* the Chapter " A Running Survey of the Banking Institutions in the Days of John Company."

Nationalisation of Banks.

Besides the above disadvantage a close relationship of the Banks with the Government cannot, however, be justified on grounds of policy and convenience. Firstly, public resources might be made subservient to the interests of the Bank. Secondly, profits arising out of banking business will not be a steady and reliable source of revenue to the State. A trade depression would have its effect on the profits of banking business. Apart from the fluctuating nature of the income the fundamental objection is that the state might fail to conduct banking business on sound lines.

Arguments for Nationalisation.

This leads us on to the wider field of the oft-discussed but little understood subject of nationalisation of banks. It is indeed true that the more radical section of the Socialists advocate the necessity of nationalising the Banks. The left wing of the British Labour [9] Party pins its faith on the nationalising of the Bank of England and the British Liberal Party aims at making the Bank of England "a modified[10] national institution" but this should not be mistaken with the socialistic conception of nationalisation which is nothing else than socialised ownership under commercial administration. The radical views of the left wing of the British Labour Party are to

(9) *See* the pamphlet "The Labour Party and Nation."

(10) *See* Britain's Industrial Future—The Report of the British Liberal Party.

consider the nationalisation of banking as one of the important and necessary tasks for all who are interested in the economic progress of their country.

ADVANTAGES OF NATIONALISATION.

The advocates of the Nationalisation policy base their reasoning on the ground that the banking business is a public utility service. It is considered all-essential that the management of it should be done by the State as it alone conduces towards efficient service. It is on this self-same ground that even municipal trading is advocated by some of the economists who stand as the staunchest advocates of free-trade and *laissez faire* doctrines. Apart from this socio-political argument the technical advantages flowing out of nationalisation of banking are very many and deserve serious consideration in any dispassionate study of this important subject. The clearing of payments becomes simplified if there is one Bank with different branches situated in different places. The inequality of treatment in the case of different borrowers by the different banks under different management would be removed under a unified banking system. It would afford less scope for imprudent speculation and other malpractices as the highly organised institution of nationalised banking can afford to have better control than what the isolated individual banks can hope to achieve. Napoleon's famous military doctrine that "one bad general is superior to two good generals" can equally

hold good in the banking field. Banks are now considered as manufacturers of credit and currency. An efficient control over this important national service can be secured only by a big institution which can afford to control the independent banks who might otherwise be working at cross purposes. Even this big institution, say, a Central Bank of Issue, would fail to achieve its object, if the ordinary banks fail to understand the true nature of the rediscounting function of the Central Bank which is nothing else than mere co-operation with the Central discounting agency. A nationalised banking system on the other hand would facilitate the easy control and direction of the credit structure. Having no individual independent Banks which can afford to ignore the dictates of the Central Bank, the nationalised banking system can render excellent service in this direction. The volume of credit can be made to suit the conditions and requirements of trade on the part of the community. The non-destructive elimination of the weak is one significant service that should not be forgotten.

Apart from the above advantages which can, however, be secured by nationalising the inner administration of the Central Bank of Issue and initiating a line of closest possible co-operative action with the other member banks and the Government Treasury the most important service that nationalisation can afford to render is the elimination of unnecessary and destructive competition from the banking field.

A system of small isolated capitalist banking units fiercely competing with each other for a restricted amount of business leads to sheer waste of effort and unnecessary duplication which has to be avoided at all costs. The rivalry that exists between these small competing units is often productive of grave evil. Much need not be written on this aspect for it is everywhere recognised that the State would do well to force the pace of the amalgamation movement in any country[11] with the view of eliminating the small and numerous banking institutions which more generally tend to reduce the standard of banking in their endeavour to secure more paying business than before. Nationalisation aims at the employment of systematic technique and well-planned schemes to raise credit to the level needed by the country. It attempts to lower the costs and improve the quality of its services. Owing to the prevalent habit of interlocking of directorates between the industries and the banking companies it is the big industries that can secure accommodation from the banks. The small producers have no special pull. It is only a nationalised banking system caring for genuine and useful productivity and social well-being that can hope to check this chief evil of capitalist banking, *viz.*, the tendency to encourage speculative activity rather than productive activity.

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(11) In Japan the State amalgamated the local hypothec banks and thus placed the ideal of a large and better managed banking institution before the ordinary banking institutions.

A nationalised banking system would provide temporary financial accommodation at cheap rates and would occasionally secure or render help to the depressed industries and nurse them in their weak stage till they revert back to proper vigour and normal health. Without a nationally managed banking service a positive policy of national development cannot and would not be successful. It can act as an indispensable auxiliary to the State bent on increasing the national productivity. The advantages are so very many and weighty in nature that most of the English Socialists wish to realise these advantages by socialising the Bank of England and allowing it to control the rest of the British Joint-Stock Banks whose management is to be exercised by a Commission in close alliance with the socialised Bank of England. [12] This would lead to a minimum dislocation of business and it eliminates the necessity of funds to buy out the claims of the existing bank shareholders.

Disadvantages of Nationalisation.

Although an excellent case can be made for the nationalising of the Banks on the numerous arguments that have been mentioned already, still the attendant disadvantages would have to be borne in mind before this bold scheme of systematising the banking industry can be successfully launched upon

(12) *See* G. D. H. Cole—"The Next Ten Years in British Social and Economic Policy—p. 243.

by its enthusiastic advocates as a good thing for the community as a whole. It is universally admitted that the linking of politics with banking affairs is bad. A state-controlled Central Bank might refuse credit to another Central Bank of another country if they differ in political views and actual measures of international collaboration between the Central Banks with the object of securing a steady monetary policy would become impossible under these circumstances. The existence of powerful foreign banks which conduct business in the country must not be tolerated and the removal of the foreign banks as well as effective inter-bank competition would lead to serious reduction of accommodation to trade, industry and commerce. Too much fetish might be made of "mere safety" and the State Bank Officials might tend to reduce the banking machinery into "a mechanical organism" instead of a living force in constant touch with the community. State banking would not generally be so safe as capitalist banking for the dominant consideration would be the necessity of the enterprise to social well-being and not the question of security. Provided this is not risky national productivity would be stimulated but if the margin of reasonable safety is miscalculated it would be disastrous.

If, of course, they tend to be very careful in the matter of loaning, on the ground that the granting of unsecured advances is very risky the utility of the nationalised banking system becomes restricted. The

gratuitous services might disappear in course of time. Another possible evil might be the increase in expenditure, for "mere red tape" devoid of intelligent control has often proved an expensive luxury. The management of the Post-Office Savings Bank[13] leads one to the solid conclusion that similar inefficiency would creep into the nature of the managing agency of the government-owned banks and very promising results might not be secured out of this process of nationalisation. The nationalised banking industry might be run with utmost disregard of either efficiency or cost.

While the previous results in this direction[14] do not promise to be very encouraging to vote for nationalisation of banking, the difficulties involved in changing the ownership of the banks are not only insuperable but might lead to disastrous consequences similar to those which were experienced when there was a discussion on the subject of "Capital Levy" in the Western countries. A "flight of capital" from the country might be generated which would have a disastrous reaction on the whole of the banking system. As foreign banks would necessarily have to be driven away trade with their countries would suffer and the money market tends to become purely national in character and the intensely nationalistic states or the statesmen who manage

(13) *See* Chap. on "The Indian Post-Office Savings Bank"—in my book "Present-Day Banking in India."

(14) *See* Russia's failure to nationalise the banking system.

the banking system would fail to realise the wider views and the international tendency of modern banking tends to become checked or corrected as soon as these tendencies become manifested. After all the capitalistic banking system can be improved to a great extent by following a constructive policy of extending credit at times by relaxing it or contracting it when good trade promises to develop rapidly into a boon. As expropriation can hardly be thought of in these enlightened days of private ownership, the question of affording compensation has to be considered and the tax-payer might be unable to foot the bill needed to acquire all bank shares at the prevailing market rates. The very diversity of opposing views expressed by different shades of opinion afford ample justification to realise fully the tremendous consequences that might be brought about while reconstructing the banking system on lines advocated by the Nationalisation policy.

Bank's help and services to the Government.

The success of the Bombay Bank from the very early days was undoubtedly due to the interest which the Government had maintained in those days. Such partnership, paternal care and close unity of interest might have been necessary in the old days but even in the modern days when the psychology of the people is such that they have a touching belief in the

potency of official action, this close relationship between Government and banking would be insisted upon. Under different circumstances of society this arrangement would be obsolete as well as unnecessary. It would be fraught with danger and discredit. The affairs of a State Bank would not be known to the Government except through post-audit reports and imprudent management cannot be checked at the very outset. What a community really requires is a sound bank where money can be deposited safely. It need not necessarily be a State Bank. Apart from the technical disadvantages which flow out of Government ownership and management of the banking system, which would also be realised in the case of a State-aided and State-controlled Bank the mere reduction of private banks would be the inevitable result as the State Bank tends to absorb all private deposits.

MUTUAL HELP.

It remains to point out the immense benefit to both particularly to the Government and secondly, to the Presidency Bank of Bombay. The financial embarassment which overwhelmed the credit of the Bombay Government when they attempted to float Treasury Bills in 1826 and 1827 just prior to the creation of the Bank of Bombay was indeed acute. Though it might not be so deplorable as was the case with the Government of Bengal immediately

prior to the creation of the Bank of Bengal[15] still the financial situation was far from encouraging. The things were soon overcome as soon as the Bank of Bombay began to conduct its operations successfully. The monopoly of the moneyed interests was broken. A safe deposit place was created. The high rates of discount and interest fell to a lower rate compatible with the needs of the traders and the borrowing public. The notes of the Bank might have rendered far more service had the Government conferred the legal tender quality. They could easily have become a common medium of exchange. The Bank of Bombay was permitted to draw on mofussil treasuries in the shape of demand bills. Currency

(15) *See* the paper written by Henry St. George Tucker to Lord Wellesley. "In 1801 public and commercial credit was practically non-existent in India. There was a large capital in the hands of the native bankers of the places such as Benares, Moreshedabad and Calcutta. People had no confidence in the Government and in the commercial community and the little capital that was employed was utilised in operations of exchange in trafficking in the different coins and in advances to the landholders and others at an enormous rate of interest. The gold coin was at a discount of 6 per cent. and the Government had to purchase silver from time to time to coin currency for paying troops and for making advances to *molungees*, manufacturers, and others in the interior. In their remittance to particular districts in which funds were required for these purposes a difference of exchange was paid by the Government to the Shroffs from whom hundies or bills were obtained. In 1801 March the Government Treasury notes bearing twelve per cent. rate of interest per annum and payable in August were sold in Calcutta at a discount of from three *to four per cent., thus yielding an interest of 18 per cent. to twenty per cent. on* Government Security."

The Bank of Calcutta materially assisted the Government to regain the credit in the money market and improved the depreciated currency. Bank-notes payable in cash were issued in exchange for Treasury Bills which were held by the Bank until their date of maturity. (*See* paras. 1 to 8--Public General Letter to Court—1st March, 1809).

was improved to a certain extent and the situation would have been much better had the instrumentality of the Bank been pressed into further service. The Government was now and then accommodated temporarily by the Bank. Assistance to the Bank was also often rendered by the Government.

The country as a whole derived direct advantages from the Presidency Bank. The making of loans at moderate rates of interest, the checking of sudden and violent fluctuations in the money market and the supply of reliable paper currency which did not depreciate in value were some of the general utilities to the public. So it can easily be established that the advantages were not all on one side.

As in the case of the Government, so also in that of the Presidency Bank of Bombay there were certain advantages whose value, however, cannot be measured in terms of money. The gradual monopoly of note-issue which was concentrated in its hands the partial legal-tender character of the notes and its prestige and position of superiority over the non-Presidency Banks secured by virtue of the Government partnership were some of the principal advantages common to almost all the Presidency Banks. There was sometimes the rendering of mutual help between the Presidency Bank of Bombay and the Presidency Bank of Bengal and in those days when the existing banks did not develop any sense of *esprit de corps* but looked upon each other as rivals, this interlending

between the Presidency Banks would have been impossible but for the fact that the Government was a shareholder of both the Presidency Banks. It is indeed true that the Presidency Bank of Bombay soon became a Banker's bank and that some amount of *esprit de corps* was actually exhibited in the last decade of our study (1850 to 1860) but unfortunately these precedents were lost in the Company boom days of 1860 to 1866.

MORE HELP.

With greater vision and insight on the part of the Government the Presidency Banks could easily have been made to play a greater part than the humble role they had to occupy throughout this period. The Presidency Banks realised the advantage of a well-regulated paper currency and always strove to increase their utility by circulating increasing quantity of their notes. The Government always neglected this question.[16] With proper aid to the banks their notes could have been made acceptable to the people and

(16) Symes Scutt records that in 1836 the Bank of Bengal asked the Government to extend the privilege of receiving its notes at all the Treasuries of the N. W. Provinces. Says he "the sanction was not given as the Government feared that such procedure might damage its exchange operations." This unfortunately appears to the writer as an interested piece of criticism. The Government had naturally to think of the question of the convertibility into cash so far as the ordinary holders were considered and when this could not be secured the privilege could not naturally be extended.

instead of having £105 mils. of ponderous metallic[17] currency a freely convertible paper currency would have aided the industry of the people as well as saved the Government of the expense of carrying specie under armed guards, economised a large part of the capital, reduced the cost of the mint, saved the wear and tear arising out of the incessant circulation of the coins, secured a diminution in the rates of discounts on bills of exchange and facilitated the conduct of remittance operations in a secure and economic manner. Although the idea dawned upon some of the more intelligent people to develop the Bank of Bengal into the position held by the Bank of England still the lack of imagination on the part of the Government precluded it from developing this ideal. [18] Similarly, Mr. R. Rickards presented the idea of a General Bank and a Sinking Fund to wipe off the indebtedness of the Company and facilitate at the same time the internal remittance operations and improve the trade and communications between the different Provinces. [19] The idea of a big

(17) This was Mr. Martin's Estimate.

(18) *See* Holt Mackenzie's Evidence before the Select Committee of the H. of Commons—1832.

(19) *See* the Public Consultations of the Government of India—6th May, 1808. Nos. 1 to 6 explain the scheme of Mr. Rickards. For the reasons for giving up this scheme, *see* the Public General Letters to the Court from the Government of India. Had this scheme emanated from any Bengal Civilian it would have been accepted. The Government of India already committed itself towards helping the Bank of Calcutta started in 1806. On account of these reasons sufficient attention was not paid to the scheme. From the theoretical standpoint it was however free from all defects.

Central Bank with branches at the three Presidency centres and subordinate branches at the different centres and treasury places was a carefully conceived scheme but the attempt to combine the idea of a Sinking Fund with that of a Central Bank like that of the Bank of England proved fatal to the scheme. The Government of India did not approve the scheme on the ground that it was a cumbrous one and that the Court of Directors would be averse to the establishment of a Big Bank with a ramified branch banking system under its control. Similarly Mr. Bartle Frere (later Sir) Commissioner of Sind suggested the advisability of branch extension on the part of the Bank of Bombay and the closing of the Government Treasuries. Even this modest idea was not developed further during the period of our study. Though the value then, of a Bank performing all the duties for the Government, might have been far less than what it now derives from the Imperial Bank, still the expenses to which the Government was put to make Government transfers, to issue Treasury notes and the losses by fire and by bad faith of the public servants would have disappeared.

Depriving the Bank of the Note-issue.

The Government not only failed to encourage the note-issue but actually deprived the Presidency Banks of this privilege and created the Government paper currency based on the defective model

of the 1844 Bank Charter Act of England. Secondly, it made the Presidency Banks depend more on floating and fluctuating Government balances. Both these causes led to the chronic stringency and tightness of the Indian Money Market. Fluctuating bank rates plainly indicated the situation. Although trade demand for money was fairly steady "bank rates were tossed up and down by fits and starts from nine to thirteen per cent."[20] Though the creation of a Central Bank of Issue on the model of the Nederlands Bank was suggested in 1884 it was not cared for on the unfortunate misunderstanding that "India possessed a sound banking and currency system." [21]

Lessons to Posterity.

The lessons intended for posterity have now to be pointed out. The first and foremost lesson is the necessity to start a Bank with the right amount of capital which should be proportioned to the population and the nature of their trade or occupations and their constant necessity to have recourse to a financial institution. Bearing these in mind, the legislators of other countries fix the proportion of the paid-up capital of the banks before they can virtually secure a license for conducting their operations.

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(20) *See* Dr. N. P. Van Den Berg—a pamphlet on the Money Market and Paper Currency of British India.

(21) *See* Sir Richard Temple—India in 1880, P. 469. *See* also Algernon West—Sir C. Wood's Administration of Indian Affairs, p. 89. *See* also G. Chesney-Indian Polity, p. 465, *et seq*.

Their object is to render unnecessary the "touting" for capital which inadequately capitalised banks generally resort to.[22] It is the self-same defect that forces them to bid heavily for deposits and agree to pay ruinous rates of interest to their depositors. Having been forced to pay high deposit rates of interest they naturally are compelled to grant advances at high rates and lending at high rates they are forced to tolerate inferior securities which are not easily saleable at the moment's notice. This is the vicious circle to which they are forced. This has to be displaced by the virtuous circle which can be initiated with the starting point of adequate capital necessary for business needs and the inspiring of due amount of confidence in the minds of the depositors. Lending at very high rates on doubtful securities would be unnecessary when a very high deposit rate is not paid. Hence, the art of successful banking consists in commencing banking operations with the right amount of capital. The main duty of banking capital is really to help the Bank to adjust various disturbances when money paid in is far less than money paid out of the Bank. Any mistake

(22) The following illustration of one "bold bogus one room bank" would be very instructive. "One bold spirit advertised some years ago for managers to look after the bank's branches in a number of foreign ports. Applicants presented themselves and were promised a handsome salary paying their own fares out and of course giving security. The men were engaged and left armed with letters of recommendation to the foreign branches and also to important mercantile houses in these centres. Needless to say, the branches were mythical and by the time the victims returned the swindler had disappeared." *See* the Statesman—Oct. 11th—1929.—p. 9.

committed in the constitution of the capital of the Bank, which ought to form its integral feature, is bound to react adversely on the future working of the bank itself.

RIGHTLY CAPITALISED BANK.

The history of the Bank of Bombay illustrates the fundamental difficulties to which a Bank would be put to in the event of too large an amount of paid-up capital which cannot be finding any remunerative outlet due to the restricted nature of monetary demand on the part of the customers of the bank. Though it is usual to say that a large amount of paid-up capital aided by substantial deposits, would enable the Bank to prosper still it must be remembered that however generous or liberal its lending policy might be, it is apt to meet with little response, if no genuine demand for banking accommodation exists. Investment of the huge funds in gilt-edged securities is the only alternative and that would naturally set a limit to the dividends, payable by the bank. Lesser dividends would be the penalty that an over capitalised Bank has to pay. Risky advances would endanger the stability of the Bank itself. Unless the Bank directorate is cautious in the matter of granting discounts and advances the Bank would become saddled with "frozen credits" which might after all prove unrealisable in the long run. Evidently it is in the interests of Banks as in the case of all other financial institutions to start with a proper

amount of capital. Dependence on the reserve liability feature of the Bank share would not be of very great help to the Bank in these modern days. Several of the liquidators of the failed Indian Joint-Stock Banks have often found it difficult to call in the reserve liability at the time of the winding up of the business of the failed Bank. This is understood by all people and most of the shareholders of the failed banks who might also happen to be the depositors of the failed Bank naturally murmur to pay the reserve liability. Smarting under the loss of their deposits they would feel this pressure to pay their reserve liability as an unkind cut of fortune. It would add insult to injury. When the Bengal National Bank failed the liquidators had to serve notices on the shareholders to pay their reserve liability. But several of them appealed to the High Court to exempt them from this liability on the score that they already suffered very heavily, having lost all their resources which have been locked up as bank deposits. The Calcutta High Court had naturally to exempt several such depositors from the further obligation of paying the reserve liability attached to the Bengal National Bank share.

Besides the impossibility of collecting them at the time of the failure of the Bank which would arise if the Bank shares were to be held by middle class or lower class people, the other grave disadvantage is that it tends to depreciate the value of the Bank share on the market. So, under the existing

conditions in this country it would be better financial wisdom if a fully paid-up Bank share of small denominations so as to be held by all classes of people and the small savers were to become the feature of the day. The principles on which the amount of the total paid-up capital is to be fixed have been stated already. Fully paid bank shares exist in other countries also.

OVERINVESTMENT IN SECURITIES.

The second salient lesson which we have to grasp from the history of the Bombay Bank is the inadvisability of making heavy investments in the gilt-edged securities. All will be well with the Bank so long as no demoralisation sets in, in the value of the gilt-edged shares in the stock market. Any ill-timed sale of securities would depreciate the value of the remaining gilt-edged stock. One can easily witness how the value of the Government of India stock has fallen as a result of the sale of three and half per cent. Government securities in 1927. If banks were to be the holders of such stock they would naturally have to set aside a portion of their annual earnings to cover the depreciation. This would incapacitate the Bank from maintaining the usual dividend unless they draw heavily on their previously accumulated Reserve Funds. A steady and stable dividend would be impossible under such conditions. The Bankers cannot hope to unload their gilt-edged shares on the market, for it would lead to a further heavy drop in

prices and the resulting loss would be very heavy. We have seen how the Bombay Bank suffered on account of this mistake during the years 1843-1852. What with competition on the part of the newly started rivals and a "Straight Jacket" which restricted its freedom in the matter of its banking operations it was forced to seek consolation in the holding of Government securities. But this meant low dividends. Consequently its shares were sold at a lower level than the Oriental Bank's shares which could find lucrative profit out of the foreign exchange business.[23] Too often when the cash reserves needed replenishing, it had to seek the aid of Government for loans against its bank-notes or cash advances against its securities. The matter of their sale was purely out of question, as their market was narrow and restricted. Saddled with securities which could not be converted into liquid cash it had often to seek the help of the Government. Even at the present day, the Indian Joint-Stock Banks find themselves placed in a similar situation. Securities they undoubtedly possess but these have become unrealisable in the absence of a Central Bank of Issue. This clearly shows that even the holding of gilt-edged securities would not make matters easy and smooth for the Banks. Access to the national Central reservoir which would be in the hands of the custodian, *viz.*, the Central Bank must exist. Without this possibility the holding of a gilt-edged security

(23) *See* the Chapter on the "*Private Banks of Bombay.*"

would not enable the hard-pressed Joint-Stock Banks to realise them immediately into solid cash which would be required so very urgently. The liberal aid of the Bombay Government saved the Bombay Bank on all such occasions. The absence of such aid in the Indian Money market at the present time has to be rectified either by a Central Bank or by the Government asking the Imperial Bank of India to grant willing aid to these Joint-Stock Banks against these securities at a liberal rate of interest which is conducive to mutual prosperity.

BANKING SUCCESS.

The third lesson which the Bombay Bank teaches is the willingness and necessity to learn out of the working of successful concerns already existing in the field. The cumulative experience of the past must be understood. Instead of learning the same things by the costly process of trial and error it behoves the newly created banks to follow the practice of the existing institutions. It is by this process alone that an unearned increment can be secured by the newly started institutions. It has been illustrated already how the Bombay Bank did not think it derogatory to its dignity to walk in the footsteps of the older institution (*i.e.*) the Presidency Bank of Bengal. In attracting deposits, in the matter of incurring initial expenses, and in the conducting of its routine banking operations it was always the policy of the Bank of Bombay to profit by the mature

experience of the sister institutions at Bengal and Madras. The present-day Joint-Stock Banks have to bear this in mind. These have to draw freely and liberally large drafts on the mature experience which foreign banks have garnered out of their business operations. Their prosperity depends on this willingness to learn. Knowledge and learning must be gathered and sought for all over the world before the foundations of a really elastic banking policy can be laid in this country.

Wisely-drawn Bye-laws.

Fourthly, the prosperity of a Bank and its freedom from disastrous failure either in the direction of discounting or advances depends on wisely-drawn bye-laws. In the absence of banking legislation which merely translates these informal regulations and raises them to the higher plane of laws everything depends on the bye-laws. It is the bounden duty of the directors to see that these are enacted and strictly adhered to by the officials. So long as the wise bye-laws were carried out or governed the business of the Bombay Bank it was immune from any losses. As soon as the Act of 1862 liberalised the conditions of the Charter and when the directors forgot this common prudence which consisted in passing wise bye-laws full freedom was given to undisciplined officers of the Bank executive with the result that heavy losses were sustained by the Bank. These were practically so heavy as to lead to the

winding up of the Bank in 1867. It is apparent that the success of a Bank depends on its expert officers, who are paying proper heed to precedent, authority and in no way circumvent any of the bye-laws enacted by the Directors for guiding the routine nature of the Bank's business. The Directors as well as the Secretaries or Managers as they are styled in the present day must know their specific duties and perform them in right earnest. "As is the king so are the people" says the well-known adage. The ordinary run of bank officers would be guiding their actions solely according to the example set by the head of the banking institution. If these heads of the Banks are endowed with right qualities the Bank is bound to succeed. It is stated that a banker should be one-fifth of a gentleman, one-fifth of an economist, one-fifth of a solicitor, one-fifth of an accountant and one-fifth of a businessman. Such should be the desirable combination of qualifications needed for our bankers. No duty of the shareholders is more important than the task of "placing the saddle on the right horse." Unfortunately it is this very important one that is neglected. Mere routine practice enables one to climb to the topmost position of the banking ladder. Seldom do the modern banks advertise for their responsible jobs and fill them up with officers possessing requisite qualifications. In no other banking system, except perhaps the English Banking System is this indiscretion committed. The American Banks advertise for the right type of men and

never give undue preference to mere knowledge of mechanical details of banking practice. Wider knowledge other than the accountant's is insisted upon. Unless such an enlightened policy is adopted there can be no intelligent drive on the part of the Indian Joint-Stock Banks.

GOVERNMENT'S HELP.

Lastly, it is the bounden duty of the Government to come to the liberal aid of the distressed Joint-Stock Banks. Through their banker, *viz.*, the Central Banker, aid has to be granted to the sound banking institutions which are being harassed by nervous depositors who are apt to lose their reasoning faculty as soon as they hear any rumour against their Banks. In such a crisis when no intelligent action on the part of the Banks would save them from disaster it is the duty of the Government to see that the Central Bank eases the situation by timely help. As P. Leroy Beaulieu says, "The Central Bank has to act as a reserve Bank to save the public at the opportune moment from the ruin which might result from the blunders of the private banks."

CHAPTER VII.

THE EARLY HISTORY OF THE PRIVATE BANKS.

Introductory.—The Bank of Western India.—Change in domicile in 1846.—Rivalry with the Early Bank of Bombay.—Its prosperity judged by dividends. Duality of control.—The Oriental Banking Corporation.—Its Exchange Work.—Silver Importation.—The Commercial Bank of India and its capital.—The Plan of the Bank.—Reasons for starting the Bank.—The discount market.—Mixed Banking given up.—Some notable features of its plan.—Guarantee fund.—Publicity.—Compulsory winding up of the bank.—The Mercantile Bank of India, London and China.—The London and Eastern Banking Corporation.—The Private Bank's relations with the Presidency Bank.—Mutual relations.—No credit control through a Banker's Bank.—Close continuous co-operation with each other.—Special lessons out of their constitution.

INTRODUCTORY.

Any study of the earlier private Banks of Bombay or an estimate of their services can, indeed, be only of a tentative nature. Any attempt to measure the service they rendered in the direction of the astonishing development of the commerce of the City of Bombay must be tentative for these banks have

now become defunct institutions. Except casual notices they cared to publish in the Bombay Castle Gazette no systematic records of these Banks are available anywhere. Having been requested to consider the necessity of enacting banking legislation[1] the Court of Directors ordered the local Governments to gather the history and the detailed nature of the operations of the private Banks. In response to this inquiry the private banks submitted their memorandum deeds detailing the history of the establishment down to the date of the submission of their return. Barring these somewhat exhaustive reports which can be seen in the Bombay Record Office no statistical survey of their operations till 1857 could be gathered by the present writer as the balance sheets of their operations were not published in the Bombay Castle Gazette even. Nevertheless it is worth while to attempt even a tentative survey avoiding at all times the possibility of arriving at fallacious conclusions out of the somewhat blurred picture which the above reports and the other stray Gazette Notifications present to the reader.

THE ORIGIN OF THE BANK OF WESTERN INDIA.

The want of a Bank for conducting exchange business was keenly[2] felt as the recently started

(1) *See* the Memorial submitted by the Directors of the Bank of Western India to the Hon'ble the Court of Directors and India Board. Financial Consultation No. 7—1843, 1st Feby., 1843. This request for charter was declined by the Governor-in Council, 3rd May, 1843.

(2) *See* Financial Despatch Letter No. 10 of 1846.

Presidency Bank of Bombay was precluded from conducting foreign exchange business as one of its legitimate operations by regulations framed in its Charter. So a banking Company was formed in July, 1842 with a capital of 10,000 shares of Rs. 500 each under the name of the Bank of Western India.

After obtaining the necessary sanction of the Government of Bombay it soon opened its Central Office in Bombay in October, 1842. The conducting of exchange business, the granting of loans, the gathering of deposits and the issuing of notes were the chief objects of its business. As the transaction of the exchange business was its principal endeavour it had to open its branches very soon as shown in the following table.—

Branches.	*Opening Dates.*	
Calcutta	February,	1844
Colombo	December,	1843
Hong-Kong	April,	1845
Madras	March,	1846
Singapore	May,	1846

CHANGE IN DOMICILE IN 1846.

The passing of the Joint-Stock Banks Act, Cap. 113 of 7 and 8 Vict. Regina—in 1845 soon led to a change in the domicile of this Bank. A new deed of Settlement was drawn up and even the

original name of the Bank was altered into that of the " Oriental Bank." The Court of Directors of the London Head-Office undertook to issue directions and manage the Bombay branch as well as the far-eastern branches. The previous capital was doubled by issuing 10,000 new shares for double the amount of the previous share (*i. e.*) Rs. 1000 each.(3) The London Office was confined to mere agency work of the branch offices of the Bank and remittance facilities were provided to parties connected with the East and to those making and receiving their remittances.

RIVALRY WITH THE EARLY BANKS OF BOMBAY.

Rivalry soon ensued between the older-established Bank of Bombay and the Oriental Bank. The way in which the Bank of Western India teased its rival, the Presidency Bank of Bombay, has already been recorded. (4) The reorganised Oriental Bank approached the Bank of Bombay with proposals to circulate its notes on certain specified terms of mutual advantage. But as the above terms were declined this company determined upon an issue

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(3) The actual paid-up capital was Rs. 80,50,720 composed of 9310 original shares issued and half called Rs. 46,55,000 and 9108 new shares and half called amounting to Rs. 45,54,000 thus making a total of Rs. 92,04,800, less calls deferred under sanction which amounted to Rs. 1158280. Thus the total paid-up capital was Rs. 80,50,720.

(4) *See* the Financial Consultation—No. 38—1844, quoted in a previous chapter.

of its own notes which was accordingly commenced in Bombay in May, 1844, in Ceylon in March, 1846, and in China in July, 1846. The lowest denomination of notes issued was in Bombay (*i. e.*) Rs. 5 and in Ceylon the minimum denomination was £1 and in China $ 5 and the circulation was as follows :—

Bombay—average for three months..	Rs.	1,00,000
Ceylon—last returns	£	1,26,080
China—just commenced ..	£	10,980

Its Prosperity.

Conducted on sound lines from the beginning the Bank began to increase its reserve fund with the two-fold object of (*a*) meeting any losses and (*b*) sustaining any rate of dividend in the event of any casual falling off of profit. It amounted to Rs. 10,44,500-8-8 or £1,04450-1-1. The steady increase of the half-yearly dividend speaks eloquently of its healthy activity.[5]

Dividends.			*Per cent.*
5th August	..	1843	—5 per cent.
,, February	..	1844	—7 ,, ,,
2nd August	..	1844	—7 ,, ,,
,, February	..	1845	—7 ,, ,,
,, August	..	1845	—8 ,, ,,
1st March	..	1846	—8 ,, ,,
Last half year	..	..	12 ,, ,,

(5) The balance-sheets of its business in London and Bombay are quoted in the Report sent by the Inspector of the Oriental Bank to the Bombay Government.

Duality of Control.

But the duality of control naturally led to serious misunderstandings and the Indian shareholders who numbered 17338 out of 18418 soon lost confidence in the London Court of Directors and made an attempt to shift the centre of authority back to Bombay. In December, 1846, steps were taken to draft a supplementary deed reconstituting Bombay as the seat of the Government of the Company. The Bombay Board applied to the Supreme Government for a legislative enactment similar to that granted to the Union Bank of Calcutta and they conceived that the proposed alteration in the constitution of the Bank would make the Government incline favourably towards them in this respect.(6) But unfortunately it was not granted. The Oriental Bank soon extended its exchange business and became the "premier Indian Exchange Bank." By virtue of its amalgamation with the Bank of Ceylon which had to experience serious difficulties owing to a crisis in the coffee plantation business it became "the Oriental Banking Corporation."(7) As soon as it received the Royal Charter of Incorporation which was granted on 30th August, 1851, the following notification was issued to enlighten the Bombay Public. But this Royal

(6) *See* the Letter of B. D. Campbell—Inspector of Branches and acting Manager of the Bombay Office.

(7) The Charter of Incorporation was granted on 30th August, 1851.

Charter gave it the privilege to issue notes in Ceylon and China alone.

The Oriental Banking Corporation.

"The Court of Directors of the Oriental Bank do hereby give notice that on and after the 1st January 1852 the business of this Company will be conducted in the premises hitherto occupied by the Oriental Bank at Bombay and will consist of Exchange, Deposit, and Remittance on the usual terms and in accordance with the provision of her Majesty's Royal Charter of Incorporation—bearing the date —the 30th Day of August, 1851."

W. W. Cargill,

London, 8th November 1851. *Chief Manager.*

Its Exchange Work.

The following notification will give the reader an idea of its business, its actual charges for its different services and the nature of the Foreign Exchange business at that time.

"Oriental Bank advertisement."

Rates of Interest, Exchange and Commission.

Interest on current deposits withdrawn on demand not subject to commission——————2 and half per cent. per annum.

Interest on Fixed Deposit withdrawable in one sum at three months' notice—————4 per cent.

Interest on Fixed Deposits withdrawable in one sum at one month's time———3 per cent.

Discount charged on Government Bills	..	..	4 per cent.
,, ,, Private Bills ..	..	.	7 per cent.
Loans on Government Notes ..	..	..	6 per cent.
,, Goods etc. ..	..	..	7 per cent.

Exchange.

On London	at six	months'	sight above	£ 50	at 1s.-10*d*.	per rupee.
,,	,, three	,,	,, ,,	£ 20	,, 1s.-9 and 7-8*d*.	,,
,,	,, one	,,	,, ,,	£ 20	,, 1s.-9 and 5-8*d*.	,,
,,	,, one day's sight			£ 5	,, 1s.-9 and 1-2*d*.	,,

Non-residential people at Bombay could also avail themselves of the remittance facilities for it undertook to supply drafts on the Union Bank of London [8] at the current rate of exchange without any charge or commission on receiving the equivalent sum. The parties who were desirous to avail themselves of its remittance facilities were to address "the Manager of the Oriental Bank," Bombay and send an order Hundi in payment of the required remittance and to make it payable to him. They were to state the name and address of the party to whom the remittance was to be made as distinctly as possible.

It also issued circular notes payable throughout Europe and drafts on Ireland and Scotland at one day's sight——at 1*s*.—9 and ½*d*. per rupee. [9]

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(8) *See* the Notification in the Bombay Castle Gazette—Rampart Row—12th Sept., 1849.

(9) Banking business was forbidden by rules in its Charter so far as the Oriental Banking Corporation was considered. Hence this arrangement had to be made for facilitating remittances.

Another part of its business was to buy and sell Government notes or shares in other banks or public companies or other securities in return for a slight commission. This commission was limited to half per cent.

SILVER IMPORTATION.

Still another important duty of the Bank was to import silver and supply the requirements of the Mint and too often the silver supplies were rejected by the Calcutta Mint on the ground that the silver proved often too brittle for coinage purposes.[10] These had to be sold in the bazar at a loss of 3%. As usual the charter of this Bank contained the double liability clause.[11]

THE COMMERCIAL BANK OF INDIA.*

Very early after the starting of the Bank of Western India, the Commercial Bank of India was started for the very same purposes of supplying the remittance needs of the people and providing a market for the purchase and sale of foreign bills. But it aspired to conduct internal commercial transactions on the footing of the country banks in England. The capital of the Bank was Rs. 1,00,00,000 divided into 10,000 shares of 1,000 each. The stringent

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(10) *See* Imperial Record Office—Financial General Letter from the Court to the G.-G. No. 30th May, 1856. On the 18th Dec. 1854 these packets of silver were refused by the Calcutta Mint.

(11) The double liability principle was applied to all the Colonial Banks and this was sanctioned by special legislation—6 Geo. IV, Cap. 91.

regulations with reference to maximum ownership of shares by individuals and the defining of the power of the directors over the assets of the Banks were all modelled in the light of provisions governing the Joint-Stock Banks recently passed by the British Parliament in 1845.

THE PLAN OF THE BANK.

The plan of the Bank must therefore be studied in detail so as to realise its excellences and see if modern Joint-Stock Banks can really be benefited if they tend to follow the excellent provisions governing the constitution of the Commercial Bank of India. A printed copy of the Deed of Settlement of the Commercial Bank of India is carefully preserved by the Bombay Government Record Office and the following information is extracted from the report itself.(12)

REASONS FOR STARTING THE BANK.

The necessity of starting a new Bank immediately after the heels of the above two Banks must first be understood before any details of its incorporation can be studied. The following extract from the report states these reasons concisely: "Lest it should for a moment be proposed that the number of banks is too great in Bombay, it may be observed that Bombay has not as yet been by any means so generally adopted as to develop the full advantages of it in reducing the rate of interest on

(12) Dated the 1st October, 1845.

commercial transactions. The number of persons who keep deposit accounts in Bombay, it is believed, bears a very small proportion to those who from their connections and dealings keep a current cash account with a floating balance in the hands of a banker and that they bear no proportion to those who in similar circumstances would keep a banking account in England. This in some measure arises from the very recent introduction of Banks in Bombay and from their not having accommodated themselves to the habits of the Natives and probably from the native disposition to hoard the bullion but it is to be hoped that with a due degree of support and control the Banks will afford the greatest economy to the country of bringing into active employment at a moderate rate of interest the large amount which it is supposed now lies idle in individual treasuries while by their course of dealing they will bring that capital most effectively into combinations with commerce and manufactures and thereby promote the productive industry of the country."

"The want of a Bank of Exchange entering largely into the purchase and sale of bills has long been felt by the commercial community in consequence of the absence of a class corresponding with the billbrokers in London the greatest practical inconvenience resulting from there being no middle party who is prepared at all times to buy a bill for any sum on the one hand and to sell an unexceptional bill on the other at a public rate of exchange.

In the purchase of bills, the Bank is enabled from its position to guarantee on security which one merchant would be unwilling to require from or to accede to another and in the sale of bills it is enabled to meet with confidence and satisfaction to all parties, orders which are of constant occurrence to remit the proceeds of merchandise in unexceptionable bills.

The Discount Market.

The method of conducting exchange transactions is lucidly explained and the Commercial Bank of India tried to conduct exchange transactions in a satisfactory manner. It realised that the monetary state of Bombay was largely affected by its foreign exchange which was subject to great and sudden influences of bills from China, Calcutta, Ceylon and London or demand for bills arising from the state of exchange in those places. In addition to these demands the transactions in internal exchanges on the principal marts in the interior of India also affected the monetary situation of Bombay. It strove to specialise in this line of business and recognising that the difficulties of an Exchange Bank would be very great if a large issue of notes were to be made payable on demand it did not assume the role of supplying notes for general circulation based on commercial or other securities. Though the possibility of capitalising its currency were to exist the danger of withdrawing suddenly the nominal

capital as soon as it finds its cash reserve falling below the proportion fixed by its charter was clearly understood by it. This was the reason why it was not anxious to issue a large amount of notes in circulation. We have already seen how the Court of Directors often refused to permit the Presidency Bank of Bombay to conduct exchange business along with the privilege of an extensive note-issue of its own.

MIXED BANKING GIVEN UP.

Much credit is due to the Commercial Bank of India for realising the dangers of mixed banking which meant in those days the dual operations of conducting note-issuing as well as exchange banking in the different monetary centres. The banking business was on approved lines and the following extract reveals the nature of its business.

1. The Bank will attract deposits and issue notes.

2. The Bank will act as agent for commission or profit.

3. The Bank will purchase and sell Government bills, securities, obligations and shares in Chartered Banks.

4. Credit can be obtained from the Bank on lines determined by the directors alone ; no director was to be present when his or his relative's application for credit is being discussed.

5. The Bank will purchase discount, and advance on bills of exchange drawn from one place on another and not of a longer period than the usance of exchange or four months.

6. The bills that can be discounted are to be of a two-name paper.

7. Single-name paper will be discounted in the absence of two-name paper.

8. The Bank grants cash credit on two sufficient securities unconnected with each other or with additional collateral security as the Directors may call for.

9. The Bank grants loans on bullion, Government securities, shares on other banks, goods not of a perishable nature, bills of lading with policies of insurance for goods and policies of Insurance which have been adjusted and accepted by public companies.

10. Registered Ships at Bombay and landed property at Bombay can be accepted as collateral security for cash credits only.

11. The Bank directors are empowered to frame bye-laws as to the value of the security with reference to the advances to be made on it.

12. All collateral securities shall be transferred that they may be immediately sold in default of the payment of the bank advance.

13. Any individual loan or discount shall not be for a higher figure than three lakhs of company

Rupees unless accompanied by a collateral security which the bank may take or by the security of two other sufficient persons or firms unconnected in general partnership.

14. The Bank will not permit any overdrawing of deposit accounts.

15. Any agent other than banks shall not be entrusted with funds of the Bank except for some special purposes under special instructions from the Directors of the Bank.

16. The Bank will not rediscount bills of exhange or sell notes with the responsibility of the Company thereon except in the case of bills of exchange made by the Bank or bills or notes of Joint-Stock Banks and short banker's bills.

17. The Bank will maintain one-fourth of its demand liabilities in cash, bullion and Government securities.

18. The Bank will open a branch or agency of the Bank subject to such rules as laid down by the Directors. Any shareholder of the Bank has the right to inspect the books of the branches.

It appears from the above list that the Commercial Bank aimed at specialising in all lines of commercial banking business and there was not much hankering after foreign exchange business. From the standpoint of the varied items of its business it can be concluded that it was the first European Bank which approximated more or less

to our modern Banks. The variety and extent of the services of the earlier banks was not of such a wide character as in the case of the Commercial Bank of India.

SOME NOTABLE FEATURES OF THE PLAN.

Coming to the notable features of its constitution which the modern banks would do well to bear in mind the first was the limitation of the privilege of shareholders to hold only three hundred shares. This must be considered as a salutary practice which defines the power and influence which the individual moneyed shareholders can hope to exercise on the working of the Bank. With the view of eliminating undesirable members as shareholders it was also laid down that no shareholder could transfer more than his holding of shares prior to 1st January, 1848, except in emergent cases *and subject to the approval of the opinion of the directors* [13]. To prevent an abuse of the shareholder's power the right to vote at general meetings was regulated in the following manner.

Five shares entitled a shareholder to have one vote.

Twenty-five shares entitled a shareholder to have two votes.

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(13) Italics mine—The necessity of permitting only desirable people to possess shares still exists in the case of most of the Joint-stock Banks for they can refuse to allot any shares to any one without stating the reason for the refusal and the application money can be returned without stating any reason for the refusal.

Fifty-five shares entitled a shareholder to have three votes.

Seventy-five shares entitled a shareholder to have four votes.

Hundred shares entitled a shareholder to have five votes—with an additional vote for every fifty shares above hundred.

Voting by proxy was also strictly defined and these shareholders who were outside Bombay also were eligible to vote by proxy but this could be given to a shareholder only and it had to particularise the question on which the vote was to be given. This meant naturally the circulation of information on the select subject and proxy was given only after the subject became known to the shareholders.[14] The power of influencing the affairs of the Bank was virtually vested in those shareholders who attended the meetings. Almost all the companies which wish to protect the interests of the shareholders would do well to understand this procedure adopted by the Commercial Bank to protect the interests of its shareholders. It is indeed a wonder why the framers of the Reserve Bank Bill did not consider the feasibility of introducing such an enlightened system in the matter of limiting the proxy to specific

(14) In some cases of the contemporary Banks of Scotland the provision of limiting the transfer of shares until after the expiry of three years existed. It naturally prevented speculation in bank shares and enabled the bank to select a respectable constituency.

questions previously settled and circulated to all the shareholders. In the case of important companies which are intended to protect national interests and are virtually to be vested with wide powers, such limitation of the powers of individual moneyed shareholders is absolutely essential. Similarly, foreign shareholders should never be allowed to sway the policy of such national undertakings. A capital-poor country has to adopt the procedure of inviting foreigners to subscribe to the companies' capital but the control of the policy should in no way be subject to their wishes, however few, they might be in number.

Guaranteed Fund.

Another salutary feature which no banking institution adopted till then was the compulsory acquisition of the "guarantee fund" or the reserve fund from the very beginning of its transactions. It was laid down that a "portion of the profits not being less than one-eighth or more than one-fourth was to be carried annually to a guarantee fund but the dividend was not to be reduced to less than six per cent. per annum by the appropriation of profits." The true conception and utility of the guarantee fund can be stated in its own words: "The guarantee fund was to accumulate at compound interest and was to be considered as a reserve fund of capital to meet any extraordinary demands on the company and also a reserve fund of profits to enable the direc-

tors to regulate the yearly dividends. Whenever the guarantee fund amounted to 14 per cent. on the then paid-up capital, seven per cent. on the capital was to be divided out of the guarantee fund, such dividend was, however, not to be paid to the shareholders but was to be added to the amount paid-up on each share." The theoretical necessity of establishing a guarantee fund was clearly grasped by the directors. As stated in the Deed itself the guarantee fund was established on the consideration that "commercial panic or depression was recurrent at intervals of several years and that the dividend should therefore be declared on the average profits of several years and not on those of any one year alone". It was also desired to prevent fluctuations in the dividend which might be productive of great inconvenience to all who may hold Bank shares as an investment. The minimum dividend was fixed with reference to the rate of interest charged by the Bank and it is believed that without a compulsory provision in the Deed limiting the dividend there would be great difficulty in restraining the shareholders from insisting on a division of the whole annual profits. This provision is the reverse of that in the charters of the Indian Banks but it will be observed that from the limited character of their business they are less exposed to the chances of loss.

PUBLICITY.

The regulations with reference to publicity were also very enlightened. Of course there was no publication of a monthly account even, as it was considered prejudical to the interests of the shareholders. It might be indeed true that no particular advantage might be existing in the publication of a monthly balance-sheet as the tendency to window-dress the balance-sheet would certainly exist. As the "preparation of a complete schedule of all the securities held by the Bank requiring a deliberate investigation than their character affords a far greater security to the shareholders than any more summary of accounts" it was decided to do so. But summaries of quarterly accounts after they were duly audited were to be presented to the shareholders and the yearly account itself was to be closed on 31st December of each year.

COMPULSORY WINDING-UP OF THE BANK.

The provisions for the compulsory winding-up of the Bank's business were also laid down in the Deed. The winding-up of the Bank "was to take place if the loss of the Bank exceeded the guarantee fund and one-fourth of the total paid-up capital." These were naturally meant to limit the scope of possible disaster arising out of the bank's failure.

THE MERCANTILE BANK OF INDIA, LONDON AND CHINA.

At a meeting held in Rampart Row in the premises

of Messrs. Hey Cock and Co., the inauguration of the Mercantile Bank of Bombay took place in 1853. Although four Banks (15) were already conducting business successfully which can be understood easily by noting the premium attached to the value of their shares it was considered that there was room enough for another bank. Only the existing banks (*i.e.*) the commercial banks were increasing their capital by the issuing of additional shares to one-third of the original paid-up capital (16). The economic prosperity of the people would greatly increase as a result of the opening of railways and if a Bank were to be started now, the expansion of trade following in the wake of the opening of the railways would easily provide the necessary scope for the utilisation of the capital of the Bank. Though in the beginning it was proposed to conduct exchange business still it was expected that the main source of profits would be the development of local business.

The London and Eastern Banking Corporation.

The London and Eastern Banking Corporation

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(15) Name of the Bank.	Premium attached to the share in the local market.
The Presidency Bank of Bombay	50 per cent.
The Agra Bank	45 ,, ,,
The Oriental Bank	96 ,, ,,
The Commercial Bank	31 ,, ,,

(16) This reference was to the increase of the paid-up capital of the Commercial Bank in 1852.

strove to establish a branch bank in Bombay in 1855. *On 1st May, 1855* notices to the effect were published in the local newspapers, *viz.*, the Bombay Telegraph. It was published that " it was a Chartered Bank conferring limited liability with full powers at the same time to carry on every description of banking business in the East Indies and India ".

This was promptly brought to the notice of the Hon'ble the Court of Directors who got its Charter examined by the law officers of the Crown and the *E. I. Company.* These opined that it could not conduct banking business in India.

Within receipt of 14 days of their letter No. 14 dated 25th April 1856 [17] the Hon'ble the Court of Directors authorised the Bombay Government to publish the same in the Government Gazette and inform the public that the Bank had no right to conduct the banking business in India. As a result of this extraordinary pressure on the part of the Court of the Directors the Bank was forced to withdraw its advertisements and a reference to the Bombay Government's letter dated 10th June 1856 to the Court [18] of Directors makes it clear that the Bank withdrew the advertisement. It is indeed a pity that the above reasons are not clearly quoted by any of the previous writers.

(17) *See* the financial General Letter from the Court to the Government of Bombay—No. 14 of 1856 dated 25th April, 1856.

(18) *See* the financial General Letter to the Court by the Government of Bombay, 10th June, 1856—letter No. 44.

C. N. Cooke only mentions the fact that it was amalgamated with the Bank of Hindostan, China and Japan and these details are unfortunately omitted.

Relations with the Presidency Bank of Bombay.

Though in the early beginning the Bank of Western India caused "wanton annoyance" to the Bank of Bombay owing to sheer jealousy arising out of the non-acceptance of its notes as cash at the public Treasuries still harmonious relations were established by about 1850 and throughout the decade 1850 to 1860 the Bank of Bombay soon rose to the dignified role of a Banker's Bank. It had the custody of the balances of the exchange banks and all the private Banks looked upon it as a Banker's Bank.[19]

The Presidency Bank of Bombay began to suffer as soon as the other rival banks arose in the field. If an intelligent comparison is made between the bank balance-sheet of 1843 with that of 1852 the situation becomes apparent.

The pressure of reduced resources can be understood by a glance at the following balance-sheets. The total assets shrank from Rs. 1,56,89,082 annas 15 pies 6 to Rs. 1,07,77,644-8-1, in 1851. For a clearer understanding of the situation the two balance-sheets are placed in juxtaposition with each

(19) See the evidence of Mr R. Maclwreaith before the Bombay Bank Commission of Sir C. Jackson.

other to enable the reader to grasp the situation. The reduction of business must undoubtedly be attributed to the advent of private banks.

OBLIGATIONS (Liabilities)

31st Dec, 1843		*1st July, 1851*
	Rs. as. p.	Rs. as. p.
The Bank Post bills Notes in circulation and other liabilities	10265082-3-8	5322027-1-3
Nett stock	5424000-11-10	5455617-6-10
	Rs. 15689082-15-6	10777644-8-1

ASSETS

31st Dec., 1843		*1st July, 1851*
By Govt. Securities and cash on hand	13711183-5-7	6634677-4-11
Cash credits and loans on deposit of securities	1074092-0-0 . ..	3010532-5-1
Govt. bills discounted .	40845-4-5	444450-0-0
Private bills „ ..	504441-15-2 .. .	514895-14-5
Bank of Bengal „ ..	137477-9-11	6408-3-6
Agra and United Service Bank	7256-8-0	15003-14-5
Bank of Ceylon	7803-8-1	.. .. (20)
Bank of Madras	126888-7-3	4545-6-9
Dead stock	19094-5-1	16000-0-0
	Suspense accounts ..	131131-7-0
	Rs. 15689082-15-6	10777644-8-1

MUTUAL RELATIONS WITH EACH OTHER.

By 1852 there seems to have been a feeling of *esprit de corps* established amongst the banking companies. The following notification in the Bombay Castle Gazette proves that the existing private

(20) The Bank of Ceylon closed its business in 1849 and that was the reason why this account disappears in the balance sheet of 1851.

banks fixed one uniform deposit rate of interest on current accounts attracted by them.

"The undermentioned Banking Companies hereby intimate that from and after the 1st January 1852 and until further notice the rate of interest allowed on current deposit accounts will be two per cent. per annum.

For the Oriental Bank,
John Riach, Acting Manager.
For the Commercial Bank of India,
F. Hutchison, Manager.
For the Agra and United Service Bank,
J. G. H. Brown, Agent."

No better guarantee of banking uniformity and co-operation need be quoted. This "Association principle" so clearly manifested in the early days needs revival in these modern days. Public welfare can be secured only by this method. These mutually satisfactory conditions must necessarily have presupposed mutual support and cordial co-operation at the same time. Possessing the advantages of issuing notes, and conducting Government and private banking the Bank of Bombay could steadily build up good business and easily overshadow the rival private banks. It inevitably became the banker's bank and all the other bankers volunteered to lodge their reserves with it and group themselves round this Bank of Bombay.

Such are the general features of banking history in Bombay in the early part of the nineteenth century,

a period of wars with the Maharattas and the Sind chieftains and a period of commercial expansion. It is during this remarkable period that the economic institution of banking developed as a highly specialised business concentrating its efforts on the mobilisation of capital resources to meet the growing demand on the part of traders.

NO CREDIT CONTROL.

Two noticeable features are of great importance to the present-day banking world. We have seen how the banking reserves of the private banks were placed in the hands of the Presidency Bank of Bombay. It soon developed into a Banker's bank. That it did not pursue any credit-controlling policy influencing the other banks by any action of its own is too apparent. Credit control could hardly have been thought of in those early days. Even among the contemporary foreign banking institutions it was unknown. The Central Bank's policy being a recent development our forefathers might have been blissfully ignorant of the complications arising out of the Bank rate movement. But the placing of cash reserves of the individual banks presupposes the spirit of co-operation and willingness to trust the premier Bank. Without any legislative compulsion but by sheer practice and tradition it became the habit of the commercial and exchange banks to have this informal depositing of available cash resources in the quasi-public institution. This habit which soon became widespread ought to have

been taken advantage of by the Banker's bank. It had direct dealings with the market and though no competition with the exchange banks was possible it did not rouse any jealousy on the part of the commercial banks. Indeed there was no effective competition and no serious conflict of interest naturally ensued. Owing to the limited number of banks, all of them could find remunerative work.

Close Continuous Co-operation with Each Other.

It is quite evident from the notification concerning the Bank deposit rate that cordial and harmonious relations existed between the private Banks doing business at that time. One main reason was of course a proper demarcation of their business. The Agra Bank (Bombay) was purely an Agent Bank. The Oriental Bank was an exchange bank and the Commercial Bank concentrated its attention on internal commercial financing to a large extent. Whatever might be the reason for the spirit of *entente cordiale* the existence of this arrangement to eschew undesirable competition is a unique feature to which attention has not been drawn by the previous writers. It is indeed mysterious why a further development of this sound banking tradition was not forthcoming after the banking crisis of 1866 in Bombay. Had the existence of the above salutary features been secured once again banking evolution in this country would have

had been quite different. If prudent banking is to exist a revival of these habits must take place. The Reserve Bank Bills of 1927 aimed at a statutory reserve against the deposit liabilities of the ordinary banks being placed in the Reserve Bank. Such a thing is essential to enable the Reserve Bank to gather a big monetary pool and render substantial services to the ordinary banks by extending rediscounting facilities. Besides this moral support that member banks have to render towards the Central Bank this material support is no less essential. No amount of legislation can enforce harmonious relations between the competing rival institutions. The only way of securing a uniform deposit rate and consequently uniform bank charges would be to establish by tradition the close link between the Bank rate and the market rates for money through the deposit rate of the ordinary banks which might be kept two per cent. lower than the bank rate of the Reserve Bank. The efficient functioning of the banks depends on the strict adherence to this feature and banking rehabilitation in this country is impossible without this feature. Different deposit rates by different banks mean temptation on the part of the depositors to secure a higher deposit rate and borrowing at a high rate the Bank can lend only at a still higher rate. It is desirable to eliminate this unwise competition which arises solely out of this feature. At least in the important money centres this feature has to be adopted. Such a feature

exists in the present-day Japanese banking system. To avoid unnecessary competition the banks agree to pay the same rate of deposits.[21]

Both the above features are desirable if the Indian Banking system is to progress on sound lines of development. India needs Central banking both by way of reserves and deposits, and by way of rates of interest. Centralisation of reserves and a uniform deposit rate will conduce towards stability of the banking business. All other improvements, for instance, useful clearing arrangement, spread of banking knowledge and wise banking legislation pale into insignificance before these two cardinal features. These tend to bring about close continuous co-operation between the different banking institutions with ample opportunities to co-ordinate one's efforts with another without at the same time losing their individual independence. The realisation of community of interests is necessary at this stage of banking progress in this country.

Special Lessons out of the Constitution.

Some of the special lessons to be learnt out of the constitution of the Commercial Bank of India have been indicated already. If the administration of a shareholder's bank is to be on sound basis attention must be paid to the governing body, the powers of the shareholders and proper audit. A Joint-Stock banking constitution is evidently meant

(21) *See* Willis and Beckhart—" Foreign Banking Systems"—p. 865.

to secure profits from conducting banking operations. The furtherance of shareholders' interest is indeed its recognised duty. The interests of the depositor, however, should not be sacrificed and if the governing body is to be paying proper heed to the interests of the shareholders alone the interests of the depositors cannot be secured. The presence of representatives of bank depositors on the Board of management can secure this. While the depositors need not interfere with the details of management they must at least be aware of the fact that the governing body of the shareholders is not acting in a prejudicial manner to their interests and the safety of their deposits is not endangered thereby. This did not exist in the Commercial Bank of India. But in the special circumstances of modern Inda, when the depositors fight shy of banking institutions they cannot be cajoled in any other way. After all they have as much right to guide the deliberations of the governing body as the shareholders. Both have a stake in the Bank. When this fact is recognised the need for considerable representation on their part will not be disputed. The blending of the chief depositors' and the shareholders' interests would introduce an influence on banking policy which would now be guided by the wide interests of both sections of society. It is admitted by all people that banking policy should be guided by wider national interests. There would be a nearer approximation to this ideal by incorporating this

feature as an essential element in the constitution of the governing body of the Joint Stock Banks.

Nextly, the powers of the moneyed shareholders should be limited. Any one particular group of shareholders should not have more power than the other shareholders belonging to the general body.[22] The limitation of the voting power in the case of the Commercial Bank was done to defeat the influence of the moneyed shareholders who would otherwise acquire a large number of shares. It need not be stated that such a thing would be more necessary in the case of a Central Bank than any private joint-stock bank whose operations would not be affecting national interests and business to such an extent as those of the Central Bank's.

Again the full significance of its self-imposed obligation to publish regularly and promptly more information besides the usual details of assets and liabilities which an ordinary bank return generally displays must be grasped. Such a practice is indeed a sound one and the general safety of funds can be promptly understood by the depositors. With this material before them the general public would have no reason to entertain doubts of the solvency of the Bank. The provision for the requirement of audit which the Commercial Bank of India made is not generally understood by the writers

(22) The self-same object is secured by the F.R. Banking Act of 1913 in the following way. The F.R. Bank stock is held non-transferable and no individual can hope to monopolise the capital holdings and dictate the policy of the F. R. Banks.

on banking of this period. It is indeed true that the other banks did not possess this feature but the fact of its existence in the case of the Commercial Bank should not be forgotten. It made provision for *control from within* when there was no proper control exercised from without by anybody. As there were no properly certified auditors existing at that time the joint stock Banks of the N. W. Provinces specially pleaded for the omission of the clause when the Court of Directors strove to pass banking legislation in 1846.

Lastly, the other regulations with reference to dividends, the accumulation of "Guarantee funds" or reserve fund which modern bankers would consider essential and the provision for liquidation are indeed logical. Such provisions were far in advance of the times and the state of banking art as understood by people of that period. These improvements in administrative technique were indeed due to the assimilation of these features from the 1845 legislation pertaining to the Joint-Stock Banks in England. But it was like an oasis in a desert and even modern banking institutions do not incorporate these valuable features as part of their administrative technique. It is inconceivable why such a thing should not be done when banks wish to live as permanent institutions ministering to the general advantage of the people.

CHAPTER VIII.

CONCLUDING REVIEW INDICATING THE GENERAL LESSONS OF OUR STUDY.

The quantitative aspect of Banking is not impressive. Reasons for the slow development of banking. The main lessons of our study. (*A*) Unwanted capital or overcapitalisation is a positive nuisance to a Bank. (*B*) Unlimited liability is not after all the best basis for a successful commercial bank. (*C*) Publicity. (*D*) Trained Bank officers. (*E*) The mixed banking business is bound to fail, if proper precautions are not taken up. (*F*) The nature of the investments of the Savings Bank. (*G*) Skill in conducting Exchange Banking. (*H*) Fiduciary currency must be restored to the Central Bank. (*I*) Lack of uniform Currency hinders bank development. (*J*) The position of a Central Bank in issuing fiduciary currency. (*K*) Bank rate should be higher than the market rate for the same kind of security-discounting. Conclusion.

THE QUANTITATIVE ASPECT OF BANKING.

Throughout the earlier chapters an exposition of the nature and history of the banks conducting their operations during this period has been placed before the readers and the specific lessons to be gathered out of their study have been mentioned already. As banking is becoming the most out-

standing problem of the day it is our bounden duty to devote more attention to the stating of the general conclusions of our study. It is apparent that their history is such as ought to render the most valuable lessons to similar institutions doing business in the modern days. The quantitative value of their operations will not be indeed impressive when compared with their contemporary foreign institutions. If, for example, the work of the quasi-state banks, which were considered as "state-guaranteed banks" is compared with the history of the early days of the Bank of England, their lamentably deficient nature becomes apparent. The foreign trade of the country expanded greatly during this period. There was no great drain of specie for export. Barring the export of precious metals from India in 1812, 1813 and 1832 and 1833 the stock of precious metals imported into the country was always a large amount.(1) Peace and tranquility have been reigning in the last days of the East India Company's rule. A good system of bank paper currency existed. There were plentiful harvests and banking business ought to have made greater progress than that which was actually achieved. But the conditions of the money market were almost primitive. The business facilities could be secured only at a high cost. In the midst of disorder and currency chaos the banks could not hope to succeed and develop commanding resources of their own.

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(1) *See* Appendix 9 for a Tabular statement of the imports and exports of precious metals into and out of this country.

Reasons for the Slow Development of Banking.

To what causes are we to attribute the slow growth of banking institutions of this period of our study ? It certainly cannot be attributed to the want of acquaintance and the lack of natural dispositions on the part of the people to conduct business with these institutions. The operations of the indigenous bankers were thoroughly well-known to the people and appreciated both by the rulers and the people. There were however other local circumstances impeding the growth of the banking institutions. There was firstly the stationary economic condition of the inhabitants which precluded them from saving large amounts of wealth and deposit them in the hands of bankers. Secondly, the breakdown of the Government administrative machinery in the pre-Company days created an air of insecurity and the incentive for industrial activity was almost absent in those days of trouble, bloodshed and violence. Thirdly, the want of good roads and means of communications was another minor cause and these as we have shown elsewhere, were being slowly rectified during the last decade of our study. The *laissez-faire* method in banking gave free scope to dishonest managers to mismanage the bank funds with the inevitable result that almost all of them failed miserably or "ended by becoming exchange banks with suitable Boards of Directorate in London" as one eminent banker said long ago.

The education of the people was slowly making headway and the non-utilitarian character of the education and the Government schools soon created a prejudice in the popular mind against this kind of education and until it was decided to give employment in public service to such people educated in these schools by the resolution of October 10th, 1844, the people did not take kindly to this new institution. Education creates a healthy standard, moral as well intellectual. Confidence among people can arise by sympathy and tastes in common derived from the same fountain of knowledge. Without this social atmosphere arising out of mutual sympathy it would become practically impossible for the banking institutions to conduct their operations. The little improvement with reference to the Presidency Banks could be made possible only as the Government identified itself with their credit.(2) But for a widespread banking habit the requisite socio-economic conditions and the general intelligence of the people are essential. The utility of the banking institutions would not otherwise be understood. The people were not educated to the point of using the banking institutions and the Joint-Stock banking system introduced by the European bankers into the country. Though the European Banking system succeeded in the Presidency towns as shown by the increasing use of cheques in Calcutta and

(2) *See* Mr Willoughby's minute on the Monetary Pressure in Bombay in 1845 quoted elsewhere in this monograph.

Bombay there was no great recourse to this system in the interior. As Babu Ramgopal Ghose, a prominent merchant of Calcutta, puts it before the Mansfield Commission of 1867 "their usages were slowly and gradually spreading throughout the country." Indian society was not yet organised on a commercial basis. Industry was conducted on a small basis and for a limited market. Such conditions must have limited the character of the financial organisation and narrowed the basis of the Bank's operations. The *Laissez faire* attitude permitted the Bank executives to conduct unsound banking business unimpeded. The attempts to pass banking legislation were unwittingly foiled and consequently some of the few banks that existed failed as a result of disgraceful mismanagement.

The General Lessons of Our Study.

An increase of capital which is not needed for legitimate banking business would be a most unfortunate step as can be gathered from the history of the Union Bank of Calcutta. The same mistake was committed by the First Presidency Bank of Bombay from the very beginning of its history and once again in 1865 when it almost doubled its capital. It had to gamble away the unwanted capital in the fond hope that an enlightened system of finance would be spread throughout the country by acting as a great discount bank. The determination of the amount of capital of a banking enterprise must

therefore be done cautiously. In the case of a trading company on the other hand no great difficulties would be experienced if the amount of capital is found inadequate to the business needs. It can be helped greatly by temporary borrowing. If opportunities for raising capital exist the trading company generally determines to start the enterprise with the minimum amount of paid-up capital. If in addition to this permanent capital, additional capital is required it can be easily raised by debenture debt repayable at a future date or by annual instalments. The art of banking capitalisation however is not so simple and much forethought would be required to provide the due amount of capital.

Unlimited Liability.

As the limited liability principle did not exist banking institutions had to be based on the co-partnership basis. Because most of the banks were based on co-partnership these units of enterprise were not large. If they were powerful enough to conduct business on an unlimited liability basis they would certainly have made a vigorous attempt to promote the interests of the community. Unlimited liability is not the best basis for commercial banking business on a large scale. A large amount of paid-up capital is essential for the success of the joint-stock banks. The true standard of credit, which any bank is justly entitled to receive, depends on the amount of its paid-up capital. It is not

unlimited liability which is after all the corner-stone of the credit of the banking company. It is not mere capitalists who should run the banking institutions but the bank managers should be men of previous experience in banking and must have actually acquired the knowledge of its principles and rules in comparatively humble institutions. One curious example of "double liability" feature attached to the Oriental Bank's share cannot be allowed to pass unnoticed as the early writers have done. Almost all chartered Banks had this double liability feature imposed on them. This is a clear evidence of the fact that the bank promoters of this period understood this question and nature of banking business as mainly one of confidence. They knew pretty well that nominal capital was mere legal fiction. In order to create confidence the extra liability on the bank share-holder was imposed in the case of most of the Chartered Banks. Banking is a "big confidence game" and all these devices were mainly intended to inspire confidence in the minds of the depositors.

PUBLICITY.

Publicity is everything so far as banking business is concerned. The Bank of Bengal did the best thing in publishing in a conspicuous place the state of its profits, business conditions, etc. in November, 1838. Since that time it has been its practice to publish the state of its own business in a brief form in a conspicuous place in the bank building from which it could

be seen by all its customers. Even now there is no decided improvement in this direction. No attempt is made to secure the full benefits of publicity by making a *weekly* or *monthly* publication preferable to any other. There is a general ignorance in the public mind and no settled habits of reasoning with reference to affairs of bank credit. It would be difficult to allay distrust and alarm when once it is roused. Want of accurate information generally heightens the positive ground of apprehension. A weekly publication ensures confidence at all points, namely, the convertibility of demand liabilities into legal tender money and the consistently sound management of the Bank. An unreserved communication of the affairs of the Joint Stock-Banks [(3)] would be of signal use to the Central Bank of the country in assisting it to judge of the drain likely to ensue on its coffers from disturbances in the currency circulation of the country. With the exception of the transactions with the customers and their accounts the greatest possible publicity should be given to

(3) If we compare the half-yearly balance sheets of the Bank of Bombay that were published they were not so informative as the monthly returns they had to furnish to the Supreme Government. An analysis of the loans, the different kinds of investments held, the notes issued and the different rates of interest on loans secured on different kinds of securities available at that time were clearly shown in these monthly returns which had to be forwarded to the Supreme Government. The same was the case with the Presidency Bank of Bengal. From May, 1847 we find it publishing similar monthly returns for the use of the Government. These were decidedly more informative than the usual balance sheets published for the edification of the shareholders and the general public. *See* the Financial Consultation of the Government of India.

bank transactions and the state of the banks. It tends to produce good management and affords general satisfaction to the public.

TRAINED BANK OFFICERS.

Banks should always be in the hands of trained experts who should not be influenced by demands of party or class interests within the nation. Again these should not have their own selfish interests at heart. The common good of all must not be forgotten. Fraud and artifice formed an important chapter in the history of banking of this period. C. N. Cooke vehemently and mercilessly exposed the evils. Intelligent legislation might undoubtedly have prevented the dishonest and mischievous practices of some of the individual bank officers of this period. The auditors and directors of the banks should be subject to penalties if they wilfully act in such a manner as to delude the public. The stricter charters and Government control made the Presidency Banks great and flourishing institutions. One conspicuous feature which failed to attract sufficient attention of the previous writers is the honorary character of the work of the Bank directors of this period. Neither the Government nor the mercantile directors of the Bank of Bengal were paid till the year 1856 [4] when the remuneration was fixed at rupees twenty-five for attending the Weekly Board Meetings. In 1860

(4) Financial Consultation, Ft. William, 3rd Oct. 1856 No. 106 to 109
" " 17th " 1856 No. 170 to 177.

the Government directors of the Bank of Bengal began to receive fees in common with the mercantile directors and this with retrospective effect for the last four years. The other non-Presidency Banks also followed suit. They were also never lavish in expenditure but very economical in the matter of their organisation. This example should be imitated by many of the modern bankers who seem to believe that the world can be deceived by ornament. All extravagance and needless enterprise on the part of the banks have to be eschewed. Economy should not be abandoned for profusion of expense. Purity, civility and attention to business on the part of Bank officers and courage, integrity and sense of responsibility on the part of Directors must be sedulously cultivated.

DANGERS OF "MIXED BANKING."

The mixing up of banking with trading, agency and commission business is fraught with grave and disastrous consequences to society. If bank money is spent wildly in personal indulgences or in land and security speculation it would disable the banker to return back the depositor's money. The latter-day history of the semi-banking Agency Houses was nothing but an illustration of this tendency. Such a thing is allowed to continue on a large scale in modern Japan. Close relationship between banking and industry has its own advantages but the attendant disadvantages must in no way be ignored. Some of the modern banks in Japan are under the financial

control of the big moneyed families who are in charge of the leading industrial, commercial and financial businesses. Every great business firm in Japan is financed by a bank of its own. It would undoubtedly secure financial independence on the part of the business firm. But the problem of credit control becomes difficult if the Central Bank's policy comes into conflict with the financial interests of these groups of industrialists. To be more explicit it becomes difficult to enforce a policy of deflation under such conditions if such a policy were required under the existing circumstances of the society. The Agra Bank combined insurance business with banking and in 1840 this mixing up of the different lines of business was considered dangerous and given up. The following extract from the report of 1840 shows this. "The directors have recently had under their consideration the system which the Bank conducts its large insurance business and being fully convinced from the Official Report which they have received from their Secretary on the subject as well as by their own observations of the many inconveniences and errors inseparable therefore and of the safety, profitableness and diminished labour of the contrary system recommended, namely that the Bank should become its own insurer have decided so far as it lies in them on its early abandonment."(5) Many of the Agency Houses conducted insurance business with banking and other ancillary operations. Their

(5) Quoted from the Asiatic Journal—1841.

failure has to be understood and the logical conclusion would seem to be that there is nothing so dangerous as "mixed banking."

"INVESTMENTS OF THE SAVINGS BANK."

The investments of Savings Banks should not be of such a nature as to depreciate in value. If these banks are forced to realise these securities they would be the chief sufferers. Prompt collection of interest from the hands of mortgagers is no less essential. No protection should be extended to insolvent people. Savings Banks must be considered as distributors of credit to the solvent businessmen alone. They must be considered as the right models of investment which businessmen and small investors of society should copy as their prototype. The money invested in the Savings Bank is the reserve of the poor. It is their sole shelter and support in times of economic depression and there can indeed be no greater calamity to the nation than that it should regard with unconcern any movements which tend to weaken this reserve of national financial strength. In so far as the Savings Banks tend to encourage thrift and raise the economic standard of the nation these institutions should foster savings by means of posters and propaganda. What Americans style as "purpose thrift" must be undertaken by the Savings Banks or institutions. This kind of work was done by the Bombay Military Savings Bank. At the time of muster parades there was an exhorta-

tion to all the Native Sepoys to save and bank these savings in the Bombay Military Savings Bank. Given adequate unspent margin (*i.e.*) a consumer's income higher than the consumer's outlay adequate bank deposits would be forthcoming.

The above set of theoretical conclusions stated in the beginning of the previous para. can be amply verified to a great extent if the recent troubles of the Swedish Savings Banks are taken into account. In the first week of April, 1929 roughly eight of the Swedish Savings Banks suspended payment. Their total deposits amounted to roughly 40 to 50 mil. Kroner. The depositors numbered in the aggregate to roughly 70,000. In spite of the centralised control existing since 1920 the year of their formation, they committed the fatal blunder of valuing property at an inflated level of values existing in the post-war period. Some of their other assets became frozen at the same time. With the honest intention of retrieving the lost money these began to undertake hazardous lines of business and when these speculative lines failed suspension became inevitable. But for the laudable efforts to check the panicky feeling of the depositors their failure would have been unavoidable.(6)

SKILL IN CONDUCTING EXCHANGE BANKING.

Exchange operations must be cautiously performed. The drawing of bills at ten months' date was the chief evil of this period so far as the Union

(6) *See* the Statist (London Weekly) p. 638, April 13th, 1929.

Bank of Calcutta was concerned. We have already seen how the Oriental Bank a contemporary institution granted six months' credit. Legitimate trade did not require more than four months' sight bills. The Cape of Good Hope way meant five and half months' travel and to add ten months in addition to this long period was altogether bad. It was a mystery why it was permitted by the Union Bank of Calcutta. This Bank did not exercise any caution in meddling with exchange operations. Exchange business then, as well as now, meant only small gain. But it involved greater risk than at present. Bills of insolvent houses were also freely discounted by the Union Bank of Calcutta without taking any security and no wonder it failed. We do not meet with such delinquencies on the part of the Oriental Bank and that was the reason why it soon rose to prominence as the premier Indian Exchange Bank.

Fiduciary Currency.

Banks of this period, both in Bombay as well as Bengal and Madras, had the privilege to issue fiduciary currency. So long as they were armed with this privilege there was a rough approximation of the supply of credit to the needs of the society. The money rates never rose to unprecedented heights in the busy season even. The depriving of the Banks of the power to issue fiduciary currency tended to dissever the relationship between the fiduciary currency issued by the Government and the wants of the public to have their bills and other commodities

converted into a current medium of exchange. It tended to make the currency inelastic and the operating power of the Banks was also seriously curtailed. They could not consequently render any substantial aid to the money market. When an acute stringency existed a high bank rate tended to prevail under such conditions of increased demand for money and banking accommodation and reduced bank resources. But a high bank rate acted as a double-edged weapon. Firstly, it tended to exact a higher price for this accommodation which the commercial or manufacturing customers had to pay. Secondly, it tended to induce a fall in prices and reduce the value of the stock of the customers which could be placed in the hands of the banks as security for accommodation. Dr. Van Den Berg who made a critical study of the credit situation prophesied so long ago as in 1884 that these things "will remain in the future as they have been in the past, a constant source of trouble and anxiety and disturbance to the industrial and mercantile interests of the country." (7) These features still prevail and the only solution is to remedy them by placing fiduciary currency that is created by the currency authority through its channels. The Government as Prof. W. S. Jevons long ago pointed out "cannot be trusted to judge wisely and impartially when more money is wanted. Currency must be supplied like all other commmodities according to the free action of the laws

(7) *See* Dr. Van Den Berg—p. 32 of his rare and valuable pamphlet—Paper Currency and the Indian Money Market.

of supply and demand."[8] The present-day supplying of seasonal emergency currency in India is again subject to restrictions and is not allowed to be done by the State through its accredited agent, the Imperial Bank of India according to the laws of supply and demand. It is not argued that no necessary safeguards should be imposed on the issuing of seasonal currency but the consumers of this purchasing power are restricted from obtaining it although the power to produce it exists.

Lack of uniform currency.

The lack of a uniform currency generally acceptable to the people impeded the growth of banking to a great extent. Until 1835 nothing was done in this direction and there were four important kinds of rupees *viz.*, the Bengal Sicca Rupee, the Bombay Rupee, the Madras Rupee and the Furrackabad Rupee. But to make this confusion worse confounded imported silver coins and bullion silver known as Sycee Silver from China, coins from the Persian and the Arabian Gulfs and from Europe and South America also were current in circulation. This made the matter of remittance from one province to another province a difficult one and the expenses of recoinage could have been eliminated with one uniform currency. The traders could have been saved from unnecessary fluctuations in exchange and the constant recoinage of silver. The

(8) *See* W. S. Jevons—"Money and Mechanism of Exchange" p. *237*.

Gold Mohur though legal tender for Rs. 16 was sold for Rs. 18 in the Calcutta Money market and thus ceased to be current in circulation. Experiments with bimetallism in other provinces proved equally futile. It was not in the matter of the standard coin alone that these difficulties were experienced but in the matter of popularising their representative token copper money the authorities had to experience similar difficulties. Although there was at one time a proposition to coin spelter for displacing cowries and shells in the petty market dealings, still nothing was done in this direction. Copper coins were struck largely in the mints but the demand for them was not at all satisfied so far as Bombay was concerned. Under such conditions barter must have prevailed in the interior and some kinds of commodity money must have had been in use to overcome the well-known disadvantages of barter.

POSITION OF CENTRAL BANK.

It has already been remarked that the fiduciary currency must be placed in the hands of the Central Bank of Issue. A Central Bank of Issue has a well-defined position in the monetary system of the country. Its paper currency must be made to work in conformity with the other parts of the currency organisation, namely, the metallic and credit or cheque currency created by the other banks. A Bank issue would not bring along with it the vexed problems of universalisation of particular denominations of paper currency, the circle system, and the inelasticity

which are the unfailing characteristics of a Government issue. A bank currency is much better than Government currency and the signal service that the Hilton-Young Commission did was to restore the bank issue once more to the currency theatre. A sound paper currency like the bank note currency is the *sine qua non* of currency reform in any country and provided a properly constituted Central Bank of Issue creates this bank currency there is every reason to believe that it would be popular from the very start. The history of this period of banking clearly shows that the great desideratum of currency was to have a single Central Bank of Issue for the whole of the country. Though the principles upon which paper circulation is founded were not thoroughly understood during this period the people however soon became familiar with bank paper currency and with some amount of more positive encouragement on the part of the Government and due publicity on the part of the Banks it might have had been possible to accomplish more than what was actually achieved. Perhaps it could have circulated to a greater extent that it was actually the case. That at any rate has been the contention of all students of monetary reform in this country.

It is indeed curious why the historians of the Central Bank proposal in India do not draw any attention to the first proposal made during this period. Mr. R. Rickard's proposal to start a General Bank and a Sinking Fund was summarily rejected

without any discussion of its intrinsic merits.[9] Again in the very early beginning of the nineteenth century the question of making the Presidency Bank of Bengal a national Bank suggested itself to some of the members of the Parliamentary Committee of the House of Commons which held its sittings in March, 1832. The probability of massing all the treasury balances in its hands and making the Presidency Bank of Bengal a Central Bank for the country was discussed by the Chairman. Mr. Holt Mackenzie, the chief witness on banking matters did not criticise the suggestion. It was once again commented on by Mr. Fullarton and Mr. H. T. Prinsep. Although this was not accomplished during this period yet the Bank of Bombay soon became a banker's bank by 1850 and we notice the other Banks such as the Mercantile Bank and the Commercial Bank of India and the other exchange banks of Bombay contracted the wholesome and desirable practice of depositing their balances in the Bank of Bombay. Particularly close business relationship existed between the private Banks and the Bank of Bombay. Thus the question of realising the advantages of a Banker's bank is no new one. Our predecessors knew the advantage of pooling the banker's cash reserves in the hands of the Banker's bank. Although the Government had the General Treasury of its own and subordinate branches in the different districts still it

(9) *See* Public General Letter to the Court from Fort William—Para. 110—30th June 1809; for the plan itself *see* Public Consultations—Government of India—6th May, 1808.

was not ignorant of the advantages forthcoming out of the successful working of a banker's bank. We have seen how the Presidency Banks of Bengal and Bombay soon became the custodians of the Government Officer's balances.

Bank rate and the Market Rate.

Another lesson which any Central Bank can easily derive from a study of this period is that the Bank rate should never be kept far lower than the market rate. This was the experience of the Bank of Bengal when it kept its bank rate far below the market rate till December, 1817 when it was decided to alter the discount rates according to the demand for money.

It was raised to nine per cent. Such a policy tends to cause a drain on the Reserve Bank by the other members of the money market who only relend them at a high rate. This is a principle of cardinal importance which the Central Reserve Bank has to learn. It is only in modern Japan that the Central Bank rate is lower than the market rate but ordinary borrowers on bills cannot hope to take advantage as the Central Bank's regulations require three endorsements in the case of a bill or two endorsements and collateral security. Thus its rediscounts are practically confined to other banks' bills. Similarly, in the case of the Federal Reserve Banking system of the United States of America the rediscount rate is far lower than that of the

member banks. But even there certain practical precautions exist to see that the member banks do not abuse this privilege by always condescending to stand as perpetual borrowers from the Federal Reserve Banks. By careful scrutiny on the part of the F. R. Bank. and insisting on a high grade collateral paper for rediscounting some of the evils are checked. There is also the banking tradition which deprecates the constant use of Reserve Bank credit for ordinary operations of the member banks. The function of their being pure emergency banks is very well understood and the commercial public look deprecatingly on the perpetual borrowings of member banks from the F. R. Bank.[10] Such wholesome traditions and careful regulations have made this feature a successful one. Without such precautions it would be indeed courting danger if the Central Bank of any country were to make its rediscount rate lower than the market rate.

CONCLUSION.

This is the light which the history of the banks of this period furnishes. Modern banking institutions should not repeat the same errors and mistakes and confer untold suffering on the depositors and the

(10) The meaning of the remark can be easily understood by referring to a recent writer who says, that to lean permanently on the Reserve Bank aid to invoke assistance disproportionate to its own importance and beyond that required and used by other banks constitutes an unethical exploitation of common resources and is contrary to the spirit of the contract of association"—See J. S. Lawrence—"The Stabilisation of Prices"—p. 379.

general public. These must inherit the vast knowledge which the experience of the early bankers can teach them. Acting as the heirs of this vast body of knowledge they can avoid several errors of the past and if this is done the task of educating the modern bankers to appreciate the benefits of this experience of the earlier banks would be complete.

But unfortunately we learn from history that we do not learn anything. The lessons from the banking history of this period do not seem to have been perfectly understood and some of the recent bank failures can be attributed to the same glaring violation or the self-same errors perpetrated by the earlier banks. Present reference to them has a special significance of its own and cannot be considered to be superfluous and unnecessary. Some of the above mentioned principles which we have deduced out of a detailed study are sound ones which would be of use and service to all current banking institutions. The failures of the earlier banks must serve as beacons to the existing and the future banking establishments of this or any other country.

APPENDIX I

Short Biographical Notes on prominent legislators or bankers or persons responsible for banking development in this period.

Paul Benfield was appointed as Civil Architect and Engineer in 1764 and dismissed for factious behaviour in 1770. He was however readmitted and he worked at the construction of Fort St. George until 1776. He lent money to the Nawab of Carnatic on the security of the revenue of his territory. He was one of the ring-leaders who arrested Lord Pigot, the Governor of Madras. He was promptly dismissed and recalled for this act of gross disobedience. He returned once again to India in 1781 as member of the Committee of Assigned Revenue. He left India in 1788 with one of the greatest fortunes made in Madras. He bought the estate of Walton Woodhall in Hertfordshire. He was elected to the British Parliament in 1790. He is supposed to have bought in seven to nine other M. P.'s. He sat in the British Parliament during 1790, 1793 and 1796. He was a partner in the banking firm of Boyd, Benfield and Co-bankers in London. Though his firm conducted successful banking till 1796 it became involved in financial difficulties by the end of 1796. He became insolvent in 1799 and died in extreme poverty in Paris in 1810.

Paul Benfield was one of those gentlemen who lent to the Nawab of Carnatic on the mortgages of estates at a high and usurious rate of interest. Some of the Madras business firms or even of the Company's servants indulged in this lucrative but shady business. But Paul Benfield held the whole of the estate entirely in pawn. Such highhandedness as that of Paul's and other money-grabbing European gentlemen like Colonel Sir John Call led the British Parliament to pass an Act in 1797 prohibiting the European gentlemen or business

firms from lending to the natives and princes of the Native States without the express sanction of the Governor-General in Council. Capital was thus spent by the profligate rulers of the Native States at the expense of the standard of living of the peasant population.

See Nabob's=Who's Who—in the book entitled "Nabobs of England" by J. M. Holzmann.

Henry St. George Tucker is often referred to as the "Nestor of the Anglo-Indians." He was born on 15th February 1771. He came to Calcutta in 1787. He worked as the Assistant and Private Secretary to Mr. Jones in 1790. In 1792 he was appointed to the Covenanted Civil Service. His financial talents won the friendship of Mr. Law, his superior officers at Gaya, Mr. Barlow and Lord Cornwallis. In 1796 he was appointed as the Secretary to the Revenue and the Judicial Department. He acted as the Secretary of the Commission appointed by Lord Wellesley to reduce the charges of the Presidencies. He formulated a scheme for a Bank under Governmental control and presented it to Lord Wellesley in 1801. He helped Lord Wellesley in establishing the College at Fort William and was one of the Board of Examiners. He acted as the military Secretary to the Governor-General at Madras. He became the Accountant General (the then Finance Member). His financial services can best be summed up in the following phrase viz., he did his best "in upholding the credit of the Government." He retired and joined the firm of Cockerell, Trail, Palmer & Co. as a partner. He returned again to the Accountant General's Office in 1805. He was a member of the Board of Revenue in 1807 and took part in the Land Revenue Settlement of the N. W. Provinces.(1) He settled the remittance problem which became acute by this

(1) These services were very much appreciated and in 1811 the Court of Directors ordered that a special reward of Rs. 50,000 was made to H. St. G. Tucke· *See the Public General Letter of Bengal, 8th November, 1811*

time for there was the same rate of interest prevailing in England as in India and the Company's servants wanted to remit their savings to England. He advocated remittances in goods instead of specie. He returned to England and married Miss Jane Boswell. He came back to India in 1812. He negotiated the loan from the Nawab of Oudh to help the low state of the Government Finances at that time. He left India in 1815 and stayed at Edinburgh from 1815 to 1820. In 1826 he became a member of the Court of Directors and sat there till his death in 1851. He was the author of the "Plan relative to the Establishment of the First Public Bank at Calcutta. His other work entitled "Memorials of India Government" is edited by J. W. Kaye and consists of select papers written by him. His criticism of Lord William Bentinck's proposal to start a Government Bank, his minutes on paper currency in 1836 and the proposal to start chartered Banks in Bombay and Madras are full of incisive criticism and show a profound grasp of the monetary conditions of the country.

(*See* the Calcutta Review, Vol. XXII-pp. 379-415.)

Lord William Bentinck. Apart from his other brilliant achievements in the field of Civil Administration of the country with which we are not concerned, his chief financial measures tending towards the improvement of the monetary and banking situation of the country were as follows. He started the Government Bank of Madras and worked as the chief director of it during his tenure as Governor of Madras. He came back to this country as the Governor General and it was during his tenure that the Government Savings Banks were founded in the Presidency towns. He did much to avert the failure of the Calcutta Agency Houses and granted loans to these banker-traders but their system was so hopelessly rotten that the impending ruin could not after all be averted. He took a lenient view of the Bank of Bengal's attitude towards the Agency Houses and realised full well that the breaking of

the terms of the charter was after all done in the interests of the money market.

Holt Mackenzie came to India in 1808. He studied in the College at Fort William for one year. He became the reporter of Civil and Criminal cases in the Sudder Dewany and Nizamat Adawlut. He became the Deputy Registrar and Translator of the regulations into the Persian and the Bengalee languages. He became the Territorial Secretary to the Governor-General and acted as the Government Director of the Bank of Bengal and member of the Mint Committee during that period. In 1826 he accompanied the Governor General as his private Secretary to the Western Provinces. He became a member of the Board of Revenue and Financial Secretary to the Government in 1826. He acted as the Government Director and became the president of the Bank of Bengal for a time. His evidence before the Select Committee of the House of Commons, March 1832 gives the reader a bird's eye-view of the state of banking business in Calcutta up to that time.

Robert Montgomery Martin was born in 1803 and came to Ceylon and India in 1820 as a botanist, naturalist and surgeon. He travelled throughout this country till 1830 and eventually became a member of the Court of Directors of the East India Company. He became the Treasurer of the Hong-kong establishment in 1844. He was a founder-member of the East India Association in 1866. He wrote several voluminous books on history and was undoubtedly one of the best of the earlier statisticians and imperialists. The History of the British Colonies, the History of the Antiquities of Eastern India, the Marquis of Wellesley's Despatches, the Monetary system of British India, the Indian Empire and the Rise and Progress of the Indian Mutiny published in 1859 and Statistics of the Colonies of the British Empire were some of his important books. He suggested and aided the formation of the Union Bank of Calcutta. He attempted to found the Bank of Asia in 1841 but as he failed to secure a suitable charter

for the institution the bank did not start actual business and was actually broken up in 1842. Undaunted by the failure he strove to create another exchange bank entitled the "East India Bank" with a capital of £250,000 in 1842 but the proposal seems to have never got beyond the prospectus stage (Dictionary of National Biography).

George Dickson was first selected as the Secretary of the Bank of Bengal in 1849. He had previous experience of banking work in the Caledonian Banking Company of Scotland. His judicious management was chiefly responsible for saving the Bank of Bengal in the Mutiny and post-Mutiny days. According to Sir C. Jackson, the president of the Bombay Bank Commission he was "the most able bank Manager in India and perhaps the World." He originated the amalgamation proposal of the three Presidency Banks in 1867 which was not however carried out. He strongly favoured the representation of the Government Directors on the Board of a quasi-Government or Central Bank. He held strongly the opinion that "free banking ends in great injury to the public, creates bad faith and gives scope to the rise of bankrupt corporations." He was in favour of centralisation of reserves, and advocated publicity (*i.e.*) the weekly publication of assets and liabilities of the Presidency Banks. As the advantages of a Central Bank are not adequately realised by the Indian public of the present day his views of the advantages arising out of the fusing of the Presidency Banks would be of great educative value at present. He says that "with such a large capital actually provided and liable to further calls in case of need and with an adequate reserve fund in the event of unforeseen loans arising either from the ordinary business or from political disturbances I submit that the proposed united Bank would be equal at all times and under all circumstances not only to meet the legitimate requirements of commerce but by unity of action and under the eyes of the Supreme Government to control those recurring monetary crises which although

hitherto were felt in the Bombay Presidency yet very closely and intimately affect the interest and position of all."

"Government would have an absolute guarantee for the unvarying management of their treasuries under one controlling power, a certainty of greater economy in the use and distribution of their balances throughout India; uniform management of the public debt under the same safe-guards but with enlarged security and a powerful agent in aiding them in all their financial transactions not only at the seat of the Government but by combined action throughout the whole country; nor do I despair of (what I venture to term) sounder views than those which at present prevail being ere long adopted by Government and of the management of the paper currency being restored to the Bank on terms somewhat similar to those which it formerly enjoyed or resembling in a modified degree the privileges of the Banks of England and Montreal.

In too many banks, purely European, the wealthy natives and merchants have of late manifested unmistakable distrust and it is submitted with confidence that in legislating for India respect must be paid to their usages, habits and prejudices. They have never distrusted the Bank of Bengal. Its extension on a perfectly sound and wider basis combined with a prolongation of the existing happy combination of official and mercantile intelligence in the board of directors will it is submitted tend naturally to the progress of India." The very first book on banking in India written by C. N. Cooke was dedicated to George Dickson. He acted as the Secretary of the Bank till 1872.

Sir C. Jackson acted as the Master in the Chancery and became a judge of the High Court of Calcutta and Bombay. He presided over the Commission of investigation into the affairs of the London, Chatham and Dover Railway. His views on banking were always fair and a perusal of his views would amply repay the modern readers. His view was that

"the personal element in banking is more important than any rigid charter binding the different kinds of banking operations." His report on the failure of the first Bank of Bombay is the only authoritative volume availabe to the public regarding the disgraceful mismanagementof the Bank of Bombay in the boom days of 1864 to 1866 for all the relevant records of the Bank of Bombay during 1857 to 1867 are not to be found in the Bombay Government Record Office itself.

APPENDIX II.

Some of the important Acts relating to the Banks of 1800 to 1857 referred to in our study :—

I. 1783 and 1797—Parliamentary Acts prohibiting Europeans and the Company's Servants to lend money to the foreigners and the Native Princes without sanction of the Governor General.

II. 1807—Parliamentary Act empowering the East India Company to grant charters to banking institutions which might be started in India. The servants of the Company were allowed to hold shares only in the Chartered Banks. Judges were not allowed to have any hand in banking management.

III. 1809—Act passed by the Right Hon'ble the Governor General of India in Council—Incorporation of the Bank of Bengal.

IV. 1823—Act extending the Charter of the Bank of Bengal for another five years. V. The Act of 1826 (the British Parliament) permitted the formation of large co-partnership banks with power to sue and be sued in the name of an Official of the Bank.

VI. 1836—Act No. XIX—19th September 1836, permitting the increase of capital on the part of the Bank of Bengal from 70 lakhs to 75 lakhs of Company's Rupees.

VII. 1838 –Act No. XXIV—24th September, authorises the Governor General of India to increase the capital stock of the Bank of Bengal from 75 lakhs to 112½ lakhs of Company's rupees.

VIII. 1839—Act No. VI—18th March, repeals the 1823 charter and previous legislation and grants a fresh charter to the Bank of Bengal. Notes up to two crores were allowed. The minimum denomination was fixed at ten rupees. The opening of branches was allowed.

IX. Act of 1840, 17th February. The Presidency Bank of Bombay was incorporated as a Chartered Bank.

X. Act No. IX, of 1843, 14th June. The incorporation of the Bank of Madras as a Chartered Bank.

XI. Act of 1844 British Parliament—7 and 8 Victoria Regina Chap. 110, s. 7 grants the right to chartered Banks to sue and be sued in the name of the Secretary or officer of the Banking Company.

XII. Act No. XXIII of 1845 granted the corporate privilege to the Union Bank.

XIII. The Act of 1854—26th August, empowers the Secretary of the Presidency Banks to endorse bills and to sign documents for the Presidency Banks.

XV. Act No. XIII of 1854—The repeal of the Usury laws which fixed the rate of interest at twelve per cent.

XIV. Act No. XXVII of 1855 empowers the banker to transact certain business in respect of Government securities and shares in the said Bank such as to take charge of any Government securities and to receive interest on securities taken charge of by the Presidency Banks.

XVI. The Act of 1856—The British Parliament Statutes 19 and 20 Vict. c. 47, s. 5.

XVII. The Act of 1857—The British Parliament Statutes 20 and 21 Vict. c. 49, repealed the second section prohibiting banks from registering as unlimited companies.

XVIII. The Act of 1858—The British Parliament Statutes 21 and 22 Vict. c. 91, permitted the formation of Joint Stock Banking Companies on the basis of limited liability but it was not to extend to notes.

XIX. Act No. XIX of 1857—The Indian Joint Stock Companies Act of the Governor General in Council, Registration of the Banking Companies permitted. The Agra and United Service Banks, the Commercial Bank of India and other Corporations were all registered under this Act.

XX. Act No. VII of 1860 permits the formation of Joint-Stock Banking Companies with limited liability.

XXI. Act No. XIX of 1861. The institution of Government paper currency deprives the Presidency Banks and all other banks of their right to issue bank notes.

XXII. Act No. XXIV of 1861. Agreement with the Presidency Banks for superintending and becoming agents for the issue, payment and exchange of the promissory notes of the Government of India and for carrying on the business of an Agency of issue.

IMPORTANT NOTIFICATIONS.

I. October, 1833. The Financial Department Notification announces the starting of the Government Savings Banks in the Presidency Towns.

II. May 28th, 1852. Notification of the Home Department, Fort William, prohibiting the Company's servants from taking part in the management of banking and trading companies. Eighteen months after the expiration of the date of the notice the Company's servants were to be prohibited from acting entirely as Directors of Banks.

III. 31st May, 1854. Notification of the Finance Department announces the reduction of interest from four to

three per cent. per annum on all Savings Bank's deposits. It also extends the maximum limit of deposits from Rs. five hundred to fifteen hundred. The deposits of the soldiers were to get three and three-fourths per cent.

IV. 18th January, 1856. Notification of the Finance Department that the management of the Government Savings Banks by a separate Agency will be abolished in January, 1857 and that they would be handed over to the Presidency Banks.

APPENDIX III.

A change in the form of the note of the Bank of Bengal took place in 1836 owing to the adoption of the Company's Rupee in place of the old Sicca Rupee.(1) A circular had to be issued to all the Sub-Treasuries to scrutinise all the notes carefully and as a help to enable them to easily differentiate the *old* note from the *new* note this new running was authorised and it ran as follows :—

"I promise to pay" and being signed by *one* officer only.

The old notes bore "we promise" and were signed by *two* parties connected with the Bank.

A BALANCE-SHEET OF THE BANK OF BENGAL

Assets

	1	2	3	4	
	Cash.	Bullion or specie.	Dues from Government.	Government Securities.	Rate of interest.
				Amount Loans.	per cent.
Gold	Nil.	.	..	1,75,660-12-10	5
Silver Co.'s	4:60162-4-2	Nil.	83,410-13-7	37,28,678-4-11	4

(1) *See* the Financial Consultations—Ft. William, 14th May 1847, No. 84.

Assets

5		6		7	8	9
Loans.	Rate of interest.	Account of Credit.	Rate of int.	Government Salary Bills discounted.	Private Bills discounted.	Agency at Mirzapore.
Amount. Rs.		Rs. a. p.		Co.'s Rs.	Co.'s Rs.	Co.'s Rs.
(1) 10,77,188	8%	62,165 7 5†	8½%	13,08,549 4 5		
(1) 2,53,900	9%	18,600 0 0†	9%	..	16,49,812-1-10	67,000
(1) 41,47,550	10%	26,00,094 13 4†	10½%	1,84,911 3 10	..	..
(1) 39,31,900	11%	10,13,642 15 8†	11½%	..	..	..
* 2,74,700	12%	3,36,693 2 4†	12%			

(1) On Government Securities—

Indigo, Metals and other goods and Renewals.

*Other goods and Renewals.

† Government securities,

Indigo and other goods and Renewals.

Liabilities.

Bank Notes outstanding.	Post Bills outstanding.	Co.'s Accounts.	Dividend.
Sa Rs. 1,43,992-1-3	.	.	..
Co.'s Rs. 1,18,39,735 0 0	Co.'s Rs. 3,18,998 6 9	Co.'s Rs. 2,085,401 5 11	Co.'s Rs. 10,243 12 0
1,19,83,727 1 3	.	..	..

(Sd.) H. I. LEE,
Accountant.
Bank of Bengal.
8th May, 1847.

This balance-sheet gives a mere detailed analysis than any of the other balance-sheets quoted by the other writers. The most outstanding features to which attention must be drawn are

1. The securities on which loans have been made.
2. The separation of the bank-notes item from the Post-Bills item.
3. The absence of fixed deposits item.

See the Financial Consultation, 8th Jany. 1848, (Govt. of India), No. 23.

The Circulation of the Bank Notes (showing the different denominations of the Bank of Bengal Notes.)

In Circulation 31*st Dec.* 1847.

						Total.		
			Rs.	a.	p.	Rs.	a.	p.
Co.'s Rs. notes for Rs.	10 each	..	1,23,720	0	0	..		
Sa ,, ,, ,, ,,	10 ,,	..	5,226	12	1	1,28,996	12	1
Co.'s ,, ,, ,, ,,	15 ,,	..	————	——		80,370	0	0
Co.'s ,, ,, ,, ,,	16 ,,	..	73,856	0	0	..		
Sa. ,, ,, ,, ,,	16 ,,	..	3,788	8	3	77,644	8	3
Co.'s ,, ,, ... ,, ,,	20 ,,	..	2,35,700	0	0	2,38,580	0	8
Sa ,, ,, ,, ,,	20 ,,	..	2,880	0	0	..		
Co.'s ,, ,, ... ,, ,,	25 ,,	..	4,773	6	2	..		
Sa ,, ,, ,, ,,	25 ,,	..	3,77,475	0	0	3,82,248	6	2
Co.'s ,, ,, ,, ,,	50 ,,	..	8,22,600	0	0	..		
Sa ,, ,, ,, ,,	50 ,,	..	13,920	0	1	83,6520	0	1
Co.'s ,, ,, ,, ,,	100 ,,	..	16,70,800	0	0	..		
Sa ,, ,, ,, ,,	100 ,,		28,586	10	8	16,99,386	10	8
Co.'s ,, ,, ,, ,,	250 ,,	.	14,18,000	0	0	14,28,666	11	6
Sa ,, ,, ,, ,,	250 ,,	..	10,666	0	0	..		
Co.'s ,, ,, ,, ,,	500 ,,		12,23,500	0	0	..		
Sa ,, ,, ,, ,,	500 ,,	..	22,400	0	1	12,45,900	0	1
Co.'s ,, ,, ,, ,,	1,000 ,,	..	56,15,000	0	0	..		
Sa ,, ,, ,, ,,	1,000 ,,	..	43,733	6	1	55,58,733	6	1
Do. marked "A"		..	942	7	4			
Co.'s Rs.		..	1,15,41,071	0	0			
Sa Rs.		..	1.36,917	14	11			

3rd May, 1848
H. I. LEE.
Accountant.

APPENDIX IV.

Specimen of the Bank notes—(Bank of Bombay).

Bank of Bombay,
15th April, 1843.

I promise to pay the Bearer on Demand Twenty Rupees value received N4178..................Bombay...... ......No. 4178

Entered William Smyttan   For the Bank of Bombay
Accountant.   (Sd). J. STEWART,
Twenty Rupees.   *Secy. and Treasurer.*
Excl. by................

APPENDIX V.

Specimen of the Bank Post Bill.[1]

Bank of Bengal Post Bill.

Co.'s Rs..............................Calcutta.................18

At three days' sight pay to ....:..............................

or order the sum of Company's Rupees....................

....

....value Received

From.............. For the Bank of Bengal,

No............of 18 *Secretary and Treasurer.*

............Accountant.

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(1) *See* Abstract of General Letters to the Court from Bengal—letter, 8th No. , dated 25th May 1836, Para. 15 to 22.

Quoted from the Financial Consultation No. 5, 2nd August, 1843.

APPENDIX VI.

Fort William—Financial Consultations No. 84 and 85, 14th May, 1784.

Subscriptions to 5% (Loan of 30th June, 1841, reopened on 5th October 1846.)

	Bengal			Agra	Madras			Bombay			
	Py	Subordinate	Total	Subordinate	Py	Sub.	Total	Py	Sub.	Total	Grand Total
Amount subscribed as reported in the Memorandum date 1st. inst.	15765000	3486500	19251500	1454600	2894500	944200	3838700	3071100	206100	3277000	27821800
Per Register & certificates 2nd to 8th inst,	22200	18200	40400	5500	26700	19600	46300	1000	3500	4500	187900
	15787200	3504700	19291900	1460100	2921200	963800	3885000	3072100	209600	3281500	28009700

Classes of Subscribers at the undermentioned Presidencies	Civilian	Military	Banks	Europeans	Natives
Bengal	1271900	2186800	1653800	6476700	7202700
Agra	199400	476000	125500	166800	492400
Madras	285800	859900	772000	737000	1230300
Bombay	109300	203800	756900	1277400	934300
Co's	1866-00	3726500	3308200	8657900	985970

8th May, 1847

Signed—J. DORIN
Secy. to the Government of India.

APPENDIX VII.

INDIGO AS INVESTMENT AFTER 1813 AS A MEANS OF REMITTANCE.

Indigo appears as an item of investment in 1780. Prior to this year Indigo was an article of export to England.[1] The East India Company exported Indian Indigo collected from Agra, Lahore and Ahmedabad during the early years of the 17th century. But it was subject to competition from the indigo of the West Indies and North America. As coffee and sugar cultivation began to yield more profits in the West Indies and as the American War of Independence destroyed the American colonies' trade in indigo the demand for Indian indigo began to increase. In 1686 about seven parcels were sent to London but only one yielded a profit. Then came improvements in the preparation of the dye. By 1792, Bengal indigo was found to be superior, to that of the other countries. In 1795 the consignment amounted to 3,000,000 lbs. *As soon as trade was fairly established the Company handed it over to its employees as a channel for the remittance of their private fortunes to England. The monopoly of the Company's trade in indigo was removed by about 1783, when it found it not so very profitable.* European capital began to be invested in this line by about this time. The East India Company also took care to convey the opinion of the Lords of the Committee of Privy Council for trade to the Indigo planters of Bengal so that the mode of preparing and managing indigo could be improved so as to be of equal quality with the first Gautemala Indigo. The superior energy of the individual English capitalist cultivators and the fostering care of the Company soon made it possible to rapidly extend the indigo cultivation. About 1793 or 1794 a book on the

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(1) It was the Dutch who first imported indigo from India into Europe about the year 1660. Sce Carey, Vol. II. p. 399.

culture and preparation together with the elements of theory, and practice of preparation was published by Richard Nowland. The merchants and the planters of Bengal and Behar must have profitted much by a study of this book.(2)

When the Negro rising stopped the St. Domingo supply Bengal obtained an opportunity to capture the French and the English Markets. The low duties levied on the indigo imported into England helped substantially to capture the market. In 1805 Bengal exported indigo nearly four times as great as cotton and piece-goods together. Large quantities were now produced and by 1810 it imported 5/6 of the total indigo imported into England.(3)

After 1810 it began to be imported into England in such large quantities that the Calcutta bankers or Agency Houses began to fear that a heavy depreciation in value would ensue and the Bengal Indigo Fund which continued in existence till their failure was started "to purchase such indigo factories as may be relinquished by the planters and to grant the temporary relief to any individuals who may possibly be deprived for a time of all the means of livelihood by the operations of the proposed arrangement." The object was to close the factories and keep the price of indigo from falling below a level by restricting its production so as to meet all demands for home and foreign consumption. This must be considered as the first example of a *cartel* formed in this country.(4)

(2) *See* the Letter of the Court of Directors, dated 8th April, 1789, quoted in the Selection of the Calcutta Gazette Vol. II, pp. 8 to 10.

Also *see* the Selections of the Calcutta Gazette, Vol. II, p. 551—Subscriptions for this book were received by Lambert Ross and Co.

(3) For an idea of the total quantity of indigo sold at the East India Co.'s sales, *see* McPherson—Commerce with India, Appendix No. III, p. 415.

(4) It appears to be a true selling cartel of a very highly developed type. Besides acting as a central selling agency there was an attempt to control the processes of production. Just as Germany copied the elasticity feature of currency from us, so also this type of cartel organisation foreshadowed the latter-day development of cartels in Germany.

In 1820 indigo worth about 9 ms. pounds was sent out of the country. The East India Company bought indigo in Calcutta and sent the same to the United Kingdom although it sustained a loss out of this remittance.(1) When it was produced in excess of the demand in the market it always resulted in low prices and depression to the industry as was seen in 1830.(2) That was one of the causes of ruin to several of the indigo manufacturers who were the chief borrowers from the Agency Houses.

While the average production of indigo from 1812 to 1821 was roughly 24890 chests it increased to 33170 chests in the next decade 1821-1831. The development of indigo reached its highest peak in or about 1833.(3) The British merchants made advances and made contracts to buy the products. Opium and sugar were to some extent similarly encouraged. The indigo contracts were by the fifties notoriously usurious.(4)

Years.	The Company's purchase maunds.	Price per maund.	Stock in London at the end of the year.
		Rs.	
1821-1822	3553	234	8200 chests.
1822-1823	9287	312	13100 ,,
1823-1824	6963	277	12200 ,,
1824-1825	14285	282	16400 ,,
1825-1826	17202	231	22300 ,,
1826-1827	16145	276	22800 ,,
1827-1828	26566	264	31100 ,,
1828-1829	11159	270	31200 ,,
1829-1830	29582	193	37600 ,,
1830-1831	....	....	35700 ,,

(1) Indigo which was bought at 2s. or Re. 1 in India was sold at 1s. 2d. in England and a loss of 40 per cent. was incurred upon this remittance in 1828.

(2) *See* the Evidence before the Select Committee of the House of Commons.

(3) 300 to 400 establishments existed in Bengal for the preparation of indigo alone. The people of Bengal began to imitate the European planters in manufacturing indigo but it was decidedly inferior to their product.

(4) *See* the Evidence of Prideaux at the Committee on the Growth of Cotton 1847-1848.

The history of the trade after 1860 falls outside the scope of our study. But by 1890 the synthetic aniline dyes of Germany have reduced the market for Indian indigo. But Indian growers have not gone into bankruptcy on account of the prejudice of the Indian people in favour of the ancestral vegetable dyes. Safflower and saffron are still grown in Kashmere. Cutch is another vegetable dye grown in abundance in India. These are treated as wild products and as cheap tropical labour is available to fell and extract the dye from the trees these can withstand the competition of the synthetic and artificial dyes. As long as the light and fast vegetable dyes satisfy the aesthetic tastes and aristic wishes of our people the artificial products cannot hope to oust them from the market for ever. Although the cultivation of Indigo is however steadily on the decrease since 1895 the Indian Industrial Commission shares this spirit of optimism and remarks that "natural indigo, if cultivated and manufactured on scientific lines, offers prospects of great improvement probably sufficient to enable it to hold its own in competition with synthetic indigo."

SALTPETRE AS INVESTMENT AFTER 1813 AS A MEANS OF REMITTANCE.

Considerations of space forbid me to trace the early history of the Company's attempts to export saltpetre from India. Saltpetre began to be exported from Bengal from the first half of the 18th century. It was produced in Behar and Orissa, collected at Singhia and sent in the Company's boats to Hughly and Calcutta for export. C. R. Wilson[1] gives us many instances of the interference of the Company's trade by the Nawab's officials in order to secure bribes from the same. As soon as Mir Jaffar became the Nawab he granted the exclusive monopoly of the trade in Saltpetre to

(1) *See* the Earlv Annals of the English in Bengal, Vol. I.

the English. It was chiefly used for manufacturing gun-powder. Except during years of peace there was a strict monopoly of the export. Though it was not an item of much profit to the Company its export was tolerated as it was a useful ballast in the export trade to England(2) when cotton and silk the other items of export occupied a small portion of the tonnage. It became unprofitable to export saltpetre after 1814 as it could now be taken for manurial purposes alone. Private traders soon began to import it into England. Artificial saltpetre from nitrate deposits of South America and potash mines of Germany struck a death blow to the Indian export trade. Again the raising of the export duty on the article in 1861 contributed much towards its decline. Of course the unsympathetic and small-scale production of saltpetre in India could not have made it possible or profitable even to compete with the well organised large-scale producers of artificial saltpetre of Germany and South America (Chile). The Indian export duty acted as a sort of protection to the German industry. The raising of the exchange value of the rupee in the last decade of the 19th century soon inflicted another crushing blow on an almost decadent industry unable to compete with foreign manufactures. China requires it for making fireworks and it is in Ceylon and Mauritius that Indian Saltpetre is used as a manure. Consequently these are the places to which it is now exported. During war years its price would naturally rise but the people who would chiefly benefit out of this would be the intermediaries as has been evidenced during the years of the recent Anglo-German War of 1914 to 1918.

(2) In 1776 the East India Company gained only £ 5381 from the export of Saltpetre to England. During the next three years it was not a paying concern. *See* the Letters of the Court of Directors—Sept. 21st, 1785, & May 19th, 1790.

INVESTMENT IN SILK AS A MEANS OF REMITTANCE AFTER 1813.

Silk manufactures were exported from Bengal during 1700 and 1720 on a large scale and fearing the ruin of her domestic manufactures England prohibited the Bengal wrought silks. But the export trade in raw silk was permitted. The policy was to encourage raw silk exportation from India so that the raw material necessary for the English manufactures could be obtained. Dyers were sent to Bengal to increase the colour of the Bengal raw silk and about 80340 small lbs. were exported to England during 1772 to 1780 as a result of the improvement of the quality of silk cocoons in 1771 and the adoption of the Italian method of winding silk. But for the rise in the cost of production of raw silk it could have ousted the Italian and Chinese silk from the English markets for during 1776 to 1785 Bengal imported more silk into England than Italy or China. The Company however found it unprofitable to increase the silk export and soon gave up buying raw silk as an item of its investment during the years 1783 and 1785 but began to export it once again in 1786. During the time of Lord Cornwallis's administration raw silk was exported but as cotton manufactures began to increase in England the market for silk became restricted so that the demand for Indian silk fell off during 1786 to 1795. The East India Company attempted to sell ready made or spun Bengal silk from the *Organizine* but there was a consumer's boycott on the part of the English public and manufacturers except the ribbon makers. So the East India Company had to bow to the changes in the tastes and fashions and and as the losses continued even after 1795 the Company had to give up temporarily the silk trade.(1)

(1) The East India Company deputed one Mr. Wilder to Bengal in 1557 who urged the planting of the mulberry and in 1765 rents were reduced in the case of those people taking to this culture and in 1770 to 1775 the Italian method of

There was however a revival of the silk trade in the early half of the nineteenth century and silk became once again one of the chief exports in which the Company had important dealings. But here as in raw cotton there was no economic and industrial independence of the producers. The Company's residents controlled its manufacture as well as export. It was not fine silk that could be sent out as the reeling done here was not so fine as in the case of Italy, Turkey or France.

We are however chiefly concerned with the fact that the Company's investment in silk continued as a means of remittance after 1813. The following figures of 1814 to 1830 speak of the Company's investment.

Year.	Maunds.	Sicca Rs. (per maund)
1814	9619	455
1815	6920	424
1816	5063	425
1817	5011	481
1818	10053	504
1819	7350	532
1820	10815	558
1822	11383	590
1823	11292	591
1824	8745	591
1825	9232	612
1826	12010	594
1827	12287	611
1828	13801	569
1829	14907	524
1830	14591	501
1831	13719	486

The Company first made the advances to the Pykars or native agents who distributed the advances to mulberry

winding silk was taught to the native workers. Napoleon's decree of 1808 stopping Italian silk importation was passed with the result that the English merchants were once again forced to depend on Bengal silk. *See* the first report of the Committee of the Warehouses—1794 and 1795—losses in the silk trade are reported herein. This loss was compensated largely by gains arising out of the sale of tea in England.

growers and rearers of silk worms. The Pykars gave security for the advances and undertook the delivery of cocoons into the store-houses of the factories where they were reeled by workmen hired and paid by the Company's factory. In 1827 the silk districts were divided into circles and the same price was paid at all the factories of the one and the same circle. The residents also purchased directly cocoons from the rearers without the intermediary of the Pykars. They also bought now and then silk under contracts. The price depended on the bund which the cocoons would produce.

In 1835 it was decided to sell all factories (silk filatures) and secure silk for investment by private contract. As a result of this decision many filatures were sold and by 2nd June 1836, the only filatures that were left unsold were those of Commercolly, the Sudder filature, the filature of Bhaulaoh and a small one at Cossimbazar which was not worked for many years. As these were capable of making about 1500 maunds of silk and the resumption of trade by contract was difficult it was suggested to work these filatures. But as these were not worked favourably at low prices there was no advantage of this particular method of remittance and as the silk brought into England did not fall off in quantity it was decided to dispose off the remaining filatures, if not, they should cease working altogether unless silk can be provided at a cost not exceeding one thousand Company's Rupees per Bale including Indian charges.

See the Financial Letter to Bengal from the Court of Directors, No. 7 of 1838—(10th April, 1838).

APPENDIX VIII.

THE MINT CERTIFICATES.

(Quoted from Mint Consultation 5th May 1844, No. 1 to 3).

The Mint Certificates were issued under the signature of the Assay-Master in lieu of bullion, delivered to the Mint

entitling the depositor to receive from the General Treasury the produce of the bullion according to assay in money 20 days after the date of the issue of the certificate. These were usually discounted by the holders at the Bank and sometimes also at the Accountant General's office. They became negotiable instruments by usage but still in order to carry out the suggestions of the Bank of Bengal—a new Mint certificate was issued in 1843.[1]

Specimen of the New Form.

Number...................... ......

Company's Rupees............

I hereby certify that the sum of Co.'s Rs.....................
is payable twenty days after the date herein at the General Treasury to.............................or ....order on account of............................Silver received from...... ....for coinage weighing Tolas................. ....a specimen of which I have assayed and found to be ....than standard.

Examined...........   Signed...........

Dated......... .....   *Assay Master*

Purchases of Salt and Opium were made with these Mint certificates and the discounting of Treasury acceptances which were considered as cash (See the Public Notifications, 10th January, 1812 and 10th April, 1818).

APPENDIX IX.

Nett imports of bullion into India.

Year ending 30th April.	Bengal.		Madras.		Bombay.	
	Gold.	Silver.	Gold.	Silver.	Gold.	Silver.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1841	9,18,808	..	1,600	66,546	45,258	75,401
1842	13,37,594	..	746	66,815	46,931	7,55,226
1843	18,67,888	..	115	79,298	57,823	16,57,344
1844	18,28,191	..	46	1,15,105	2,25,943	27,01,118
1845	20,41,335	..	2,592	1,85,569	5,43,172	14,39,373

Year ending 30th April.	Bengal. Gold. Rs.	Bengal. Silver. Rs.	Madras. Gold. Rs.	Madras. Silver. Rs.	Bombay. Gold. Rs.	Bombay. Silver. Rs.
1846	11,90,221	..	16,872	1,54,426	3,72,054	9,60,601
1847	2,15,531	11,20,697	27,596	1,19,603	6,60,772	8,46,782
1848	3,62,555	3,84,668	51,498	78,228	6,34,725	4,95,289
1849	4,57,122	9,57,437	34,285	78,786	9,10,291	17,62,405
1850	3,38,604	8,76,261	55,345	66,092	7,65,599	12,93,439
1851	3,18,935	8,70,547	33,473	2,26,632	8,02,902	15,59,319
1852	4,77,323	18,35,147	76,569	2,20,829	7,90,886	16,57,304
1853	6,61,472	27,32,514	49,720	5,27,134	6,29,914	12,30,579
1854	4,63,610	15,99,947	87,014	4,80,476	5,28,084	16,80,220
1855	3,18,604	3,26,520	59,524	1,34,697	5,04,593	6,89,320
1856	11,23,224	43,56,630	1,35,568	7,16,919	12,49,561	37,19,244
1857	9,25,946	55,02,627	2,28,406	9,09,081	10,21,650	58,25,987
1858	9,58,097	66,28,114	3,56,611	8,10,653	15,15,376	59,46,565
1859	22,17,769	33,43,052	2,72,971	5,92,898	19,67,099	44,43,742
1860	11,03,769	66,66,710	3,24,033	7,38,131	28,60,235	46,44,085

Nett exports of bullion from India.

Year	Bengal. Gold.	Bengal. Silver.	Madras. Gold.	Madras. Silver.	Bombay. Gold.	Bombay. Silver.
1841	1,46,206	..	572	88,728	..	1,30,979
1842	1,59,155	..	377	1,80,105	..	1,75,427
1843	2,72,934	..	46	25,271	1,000	1,16,545
1844	4,85,795	..	..	21,600	..	5,38,419
1845	3,96,543	..	..	65,053	9,353	6,35,890
1846	2,87,079	..	..	65,767	6,440	4,56,703
1847	3,000	2,80,404	35	68,134	2,855	3,60,295
1848	..	9,05,071	2,940	2,11,323	6,722	2,99,982
1849	41,226	7,39,152	1,110	7,32,738	10,494	10,12,834
1850	40,448	3,52,716	2,367	71,191	440	5,38,278
1851	937	2,75,393	605	1,03,535	474	1,60,345
1852	70,080	1,80,508	500	2,15,268	585	4,52,147
1853	1,45,478	3,30,896	300	36,082	23,027	5,18,225
1854	4,282	4,33,661	295	1,15,362	12,688	9,15,906
1855	11,211	3,80,344	96,785	4,25,029	43,435	3,10,153
1856	100	1,12,436	5	70,675	2,003	4,15,307
1857	66,759	4,62,466	..	78,471	17,829	6,23,505
1858	40,726	1,64,523	6,000	95,411	285	5,06,450
1859	4,346	81,546	5,150	1,52,016	1,390	4,17,788
1860	..	3,95,280	6	1,79,415	3,797	34,688

See the Statistical Tables relating to British India.
Statistical Abstract for British India, 1840-1865.

Nett Imports of Bullion into India.

Year.		Rupees.
1834-1835		1,77,10,729
1835-1836		2,07,36,453
1836-1837	Company's Rupees	1,77,22,332
1837-1838		2,29,94,450
1839-1840		1,47,47,411
1840-1841		1,41,48,569
1841-1842		1,71,57,072
Average for five years		1,89,80,900

See Macgregor—Oriental Commerce Pp. 163 and 192.

Bullion Exported from England by the East India Company to India.

Year.	Bombay.	Madras.	Bengal.	Total.
	£	£	£	£
1770	..	..	9774	
1771	..	..	..	
1772	..	..	..	40336
1773	..	1806	..	11736
1774	..	..	..	10134
1775	..	..		10003
1776				20050
1777				10827
1778				10657
1779				9939
1780				14874
1781				..
1782				..
1783				..
1784				..
1785				20058
1786	16204			54872
1787				19901
1788		51247		19784
1789	53301	134883		72845
1790	..			532704
1791	..			152783
1792	..			10943
1793				10289
1794				..
1795				..

Year.	Bombay.	Madras.	Bengal.	Total.
	£	£	£	£
1796				20343
1797	41838	156932		216392
1798	502054	99699	99699	719255
1799	100592	20563	..	121155
1800	138853	210384	231666	601926
1801	......	122859	312736	435595
1802	101292	31059	1005549	1137900
1803	..	207063	586634	793697
1804	200000	400820	1131219	1732039
1805	..	..	499483	499483
1806	..	..	200163	200163
1807				..
1808				..
1809				..
1810				.
1811	..	..	..	..

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INDEX

A

B

B—*contd.*

B—*concld.*

C

D

D—*concld.*

E

F

F—*concld.*

G

H

I

J

J—*concld.*

M—*concld.*

N

O

P

Q

R

S

S—*concld.*

U

V

W